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THE BUDGET AND THE REGION

FISCAL 1989

A REGIONAL ANALYSIS OF THE
PRESIDENT'S FISCAL 1989 REQUEST
A 50-STATE BREAKDOWN OF FEDERAL
SPENDING IN SELECTED PROGRAMS



NORTHEAST-MIDWEST CONGRESSIONAL COALITION
NORTHEAST-MIDWEST SENATE COALITION
NORTHEAST-MIDWEST INSTITUTE

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NORTHEAST-MIDWEST SENATE COALITION
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In late 1976, members of Congress from the region founded the Northeast-Midwest Congressional Coalition in recognition of the common problems facing their states and the fact that federal policies often create major obstacles to regional economic growth. The bipartisan group now includes nearly 200 members of the House of Representatives. The Northeast-Midwest Senate Coalition, which was formed in 1978, has 36 members. Together the Coalitions seek to inform their members about the regional implications of national policies and proposals, and to influence those issues of greatest importance to Northeastern and Midwestern states.

The Coalitions propose legislative solutions to the economic problems of the New England, Mid-Atlantic, and Midwest states, and work to assure that Federal policies are equitable in their treatment of different areas of the country. Task forces help develop policy initiatives and positions on subjects ranging from the federal budget and economic development to defense, natural resources, energy, and transportation.

The Northeast-Midwest Institute was formed in 1977 at the request of members of the House and Senate who perceived the need for information and analysis of public policies to identify and further the interests of the region. The Institute seeks to encourage policies that will ease the pressures on and support the continued revitalization of the region's economy. It continually searches for new ideas and legislative options that can help older Northern states overcome their handicaps--such as high energy costs and a deteriorating infrastructure--and prudently develop their many assets, including a highly skilled work force, top quality educational institutions, and abundant natural resources.

Although members of Congress remain key clients of the Institute, the organization has developed close working relationships with governors, mayors, and other state and local officials as well. The Institute's work is used widely and relied upon by corporate and labor leaders, academics, public interest groups, associations, and journalists throughout the nation.

The states in the region served by the three organizations are Connecticut, Delaware, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, and Wisconsin.

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**NORTHEAST-MIDWEST CONGRESSIONAL COALITION
NORTHEAST-MIDWEST SENATE COALITION
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PREFACE

The Northeast-Midwest Institute and the Northeast-Midwest Congressional and Senate Coalitions are pleased to provide The Budget and the Region, a regional analysis of the president's fiscal 1989 request and a state-by-state breakdown of federal spending in selected programs. We hope this guide will be a valuable resource for those who monitor and seek to shape federal policy and its impact on the Northeast and Midwest.

Each year, the Northeast-Midwest organizations distribute a summary analysis of the president's budget request within 24 hours of the Office of Management and Budget's release. The groups also circulate a detailed review of the submission within approximately four weeks. In 1988, the organizations also plan to monitor the entire budget process, releasing short reports after the budget resolution and votes by the appropriations committees.

The federal budget plays an important role in the economic growth of the nation's regions. The Northeast-Midwest organizations have previously demonstrated that northeastern and midwestern states consistently pay more in taxes than they receive in total federal expenditures. In fact, the region's balance-of-payments deficit has become structural, rooted in underlying defense outlays and procurement practices.

A companion document, The State of the Region, reports on demographic and economic trends within the region. It notes that from late 1983 to late 1986, the nation, and much of the Northeast-Midwest region in particular, enjoyed an extended return to prosperity. Differences, of course, occurred between urban and rural areas and between inner-city and suburban economies. Yet overall, regional unemployment rates fell below the national average, and a net total of 3.3 million jobs was created. Per capita personal incomes in the Northeast and Midwest increased faster than those in the South and West, and capital investment rose sharply. Moreover, business starts were high and climbing, and regional businesses suffered relatively few failures.

The Northeast-Midwest organizations try to help forge partnerships at the federal, state, and local levels to promote the region's economic vitality. We hope this report enables the region's leaders to understand the impact of federal deficit-reduction efforts and to choose among policy alternatives.

We look forward to working with friends of the region. Please feel free to contact our offices to obtain more information or to offer suggestions regarding our activities.

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SUMMARY

The president's fiscal 1989 budget request follows the outline of last fall's bipartisan budget agreement. However, the president did not pass up the opportunity to take another shot at several federal programs that have proven essential to the economic revitalization of the Northeast and Midwest.

The Office of Management and Budget has projected a "baseline" deficit of \$142.7 billion for fiscal 1989 (using the definition of "baseline" specified in the revised Gramm-Rudman-Hollings Act). The president's proposal contains approximately \$13 billion in deficit reduction measures, with a resulting deficit of \$129.5 billion--an amount within the Gramm-Rudman-Hollings target of \$136 billion for fiscal 1989. It must be noted, however, that the Congressional Budget Office, using less optimistic economic assumptions, has projected a fiscal 1989 deficit of \$176 billion--\$40 billion over the Gramm-Rudman-Hollings target.

By far the largest single element in the president's \$13 billion deficit reduction package is \$10 billion in proposed asset sales and prepayments. The president has also proposed a net increase in revenues of \$700 million and approximately \$2 billion in reductions in domestic discretionary spending in fiscal 1989.

However, not all domestic discretionary spending was subject to budget restraint. While economic development programs vital to the region (the Economic Development Administration, urban mass transit discretionary grants, Urban Development Action Grants, among others) were targeted for elimination, the president proposed a 30 percent increase in NASA's space research and technology programs. Following are highlights of the budget proposal:

- **HUD DEVELOPMENT PROGRAMS** -- The administration proposes to reduce or eliminate again the economic and community development programs of the Department of Housing and Urban Development (HUD). These programs provide essential support for local projects, including many activities targeted to distressed areas.

Community Development Block Grants (CDBG). The budget request calls for \$2.48 billion in new CDBG budget authority for fiscal 1989. This amount would be supplemented by the transfer of \$145 million in unobligated funds from the Section 312 rehabilitation loan fund. Thus, total CDBG budget authority for fiscal 1989 would be \$2.625 billion, the lowest funding level for the program since 1976. The fiscal 1988 continuing resolution provided \$2.88 billion in CDBG budget authority, 4 percent less than the fiscal 1987 level of \$3 billion.

Section 108 Loan Guarantees. The administration again proposes to terminate the Section 108 program, that entitlement cities use to leverage CDBG funds for large-scale physical development projects. The fiscal 1988 continuing resolution permits \$144 million in guarantees. Section 108 obligations are financed through underwritten public offerings. Cities in the Northeast and

Midwest have used more than 60 percent of the \$865 million in guarantees approved since the beginning of the program.

Urban Development Action Grants (UDAG). Although acknowledging in the past that the UDAG program has had "substantial success" in stimulating economic development activities in many distressed communities, the administration again seeks to terminate the program. The continuing resolution provided \$216 million in fiscal 1988 UDAG authority. No new funding is requested for fiscal 1989; HUD also proposes to rescind an estimated \$50 million in recaptured prior-year funds.

Elimination of the UDAG program would be felt keenly in the region. In the last decade, it has generated more than \$17.8 billion in private investment and is credited with creating or saving nearly 450,000 jobs in the Northeast and Midwest. Nearly \$600 million in UDAG assistance has gone to the region's small cities.

- **ECONOMIC DEVELOPMENT ADMINISTRATION (EDA)** -- The president proposes once again to eliminate EDA. The administration maintains that its programs serve only "narrow local and regional political interests at the public expense." The budget requests no new EDA program spending for fiscal 1989.

Because of strong congressional support, EDA has continued to operate, albeit with a small program budget. Congress appropriated \$182 million for EDA for fiscal 1988; this included \$119.7 million for public works, \$23 million for state and local development planning, and \$24.7 million for economic adjustment assistance. In August, the House passed a bill authorizing \$500 million for revamped and more targeted EDA assistance.

- **SMALL BUSINESS ADMINISTRATION (SBA)** -- This year's budget proposes the elimination of all SBA direct lending. The administration requests a \$3.03 billion guarantee level in fiscal 1989 for programs operated under the Business Loan and Investment Fund; to achieve this level, the budget requests \$130 million in new capital for the fund.

All requested business assistance would be in the form of loan guarantees. The president asks for a \$2.4 billion limit for Section 7(a) general business loan guarantees, a \$450 million level for Section 504 development company debentures, and \$186 million for SBIC loans financed through private markets. All direct loan programs--MESBICs, handicapped, economic opportunity, and veterans--would be terminated, according to the budget request, as would three small programs that guarantee energy, handicapped, and economic opportunity loans.

The administration would continue SBA's technical assistance programs, although it intends to begin a "gradual" phase out of federal funding for the popular Small Business Development Center (SBDC) program in fiscal 1989. The budget proposes a reduction in the statutory limitation on SBDCs from \$65 million to \$45 million. The administration also proposes to reorganize federal minority assistance programs by transferring all of the Department of Commerce's Minority Business Development Agency (MBDA) programs to SBA.

- **HOUSING ASSISTANCE** -- The administration continues to emphasize the voucher approach to housing assistance in both urban and rural areas, and seeks cuts

in "bricks and mortar" housing construction and modernization programs. The fiscal 1989 budget proposes to add 135,500 more subsidized households to those currently served; 127,500 of these (94 percent) would be given vouchers to use in the private rental market.

Section 8 and Housing Vouchers. The president seeks \$4.62 billion in budget authority to reserve 123,787 lower-income housing (Section 8) units in fiscal 1989, 30,971 more than the number reserved in fiscal 1988. This number includes 107,000 incremental (new to the inventory) units. The balance of 16,787 units covers tenants already in subsidized housing who must be relocated because of Section 8 opt-outs, demolitions, prepaid units, and property disposition. More than half of these tenants would be given housing vouchers instead of new units. Vouchers, in fact, comprise more than 111,000 of the total reservations (90 percent) and \$3.03 billion in budget authority.

The fiscal 1989 Section 8 proposal includes \$953 million in budget authority to cover 7,000 new housing units for elderly and handicapped persons. These would be built under the Section 202 program, for which HUD seeks \$350 million in loan limit authority. Applications under the two programs are processed simultaneously.

The budget request also seeks \$1.2 billion for Section 8 existing housing, project reserves, and other program components. The agency proposes to rescind \$182 million in prior year subsidies that no longer prove feasible. The total Section 8 budget request for fiscal 1989 is \$5.76 billion.

Public Housing. The administration proposes to reduce available public housing resources significantly. It requests no fiscal 1989 funds for HUD public housing development; in fiscal 1988, \$414 million was reserved for the development or reconstruction of 6,147 units. The budget asks for authority for 1,000 new units of Indian housing, half of the fiscal 1988 level. The proposal also seeks to rescind \$122 million in prior year obligations for public and Indian housing.

The president proposes to reduce available public housing modernization (CIAP) funds by 41 percent, from the \$1.73 billion approved in fiscal 1988 to \$1.0 billion in fiscal 1989. Adequate modernization funding is especially critical to the region's housing authorities that oversee much of the nation's oldest and least energy-efficient housing stock. The administration also seeks \$1.52 billion for public housing operating subsidies, about the same level as fiscal 1988 sources.

Rental Rehabilitation and HoDAG. The administration proposes to reduce rental rehabilitation grants, which support renovation of privately-owned rental housing. HUD would receive an appropriation of \$150 million, combined with \$20 million in recaptured prior year funds, to provide a fiscal 1989 program level of \$170 million. The fiscal 1988 authorization is \$200 million; total program resources would be \$223 million. In addition, the administration this year proposes to target funds to localities that do not have rent controls.

The administration seeks no new resources for the rental housing development grant (HoDAG) program in fiscal 1989. Fiscal 1988 funding totals \$18.4 million, largely recaptured authority from prior years. In the recently

enacted Housing and Community Development Act, Congress terminated the HoDAG program as of the end of fiscal 1989.

Rural Housing. The administration asserts that the three major housing loan and guarantee programs administered by the Farmers Home Administration (FmHA) through its Rural Housing Insurance Fund "are no longer needed"; no new activity is proposed. Congress approved a \$1.9 billion level for fiscal 1988 to help 38,650 new units. For fiscal 1989, all new rural housing assistance would take the form of vouchers; the president seeks a \$381.6 million FmHA authorization for 21,200 vouchers. This amount would be added to the \$133 million authorized in the 1987 Housing and Community Development Act for 7,500 vouchers for low-income families in rural areas.

- **FmHA DEVELOPMENT PROGRAMS** -- The budget proposes a \$95.7 million level for business and industry loan guarantees in fiscal 1989, the same as fiscal 1988 amounts. It would reduce community facility loans by 48 percent, however, from \$95.7 million in fiscal 1988 to \$50 million in fiscal 1989. Both of these rural economic development programs are authorized under the Farmers Home Administration's Rural Development Insurance Fund.
- **APPALACHIAN REGIONAL COMMISSION (ARC)** -- Terming its activities "unnecessarily duplicative" of other federal programs, the administration again seeks to discontinue ARC highway, jobs, and investment programs. These activities serve predominantly rural areas in the 13 Appalachian states. The 1988 continuing resolution provided \$107 million in ARC funds.
- **GENERAL SCIENCE, SPACE, AND TECHNOLOGY** -- The administration's budget request for fiscal 1989 includes \$62.5 billion in obligations for all research and development (R&D), a 4 percent increase over fiscal 1988. Defense-related R&D programs would continue to receive a disproportionate amount of total federal R&D funding--65 percent in fiscal 1989. However, the new budget reflects the administration's continued commitment to increased civilian basic research and development funding. In non-military R&D, the president proposes to increase the budget authority for space and science programs by 29 percent to \$13.9 billion, up from \$10.7 billion in fiscal 1988. Programs that would be affected include the National Science Foundation (NSF), the National Aeronautics and Space Administration (NASA), and the general science programs in the Department of Energy.

The budget proposal includes a 19 percent increase in funding for NSF to \$2.1 billion. This increase reflects the administration's plan to double NSF's budget over the next five years, with a focus on expanding support for basic research and science and engineering education. The president's budget also requests a 49 percent increase to \$1.2 billion for the general science programs in the Department of Energy. A large portion of this amount would initiate construction of the Superconducting Super Collider. Fiscal 1989 would be the first year of funding for the eight-year, \$5.3 billion construction project. The budget request for NASA includes \$10.6 billion for space-related activities, the largest portion of which would be devoted to space and science non-military R&D. This figure represents a 29 percent increase over fiscal 1988 levels.

The administration proposes several new R&D initiatives in the fiscal 1989 budget. NASA would receive funding to develop a new advanced solid rocket motor for the space shuttle, and also would start a major new space science

project, the Advanced X-ray Astrophysics Facility. NSF would fully fund between 10 and 15 interdisciplinary Science and Technology Centers to promote the participation of private industry and the states in moving technology more quickly from the laboratory to the marketplace. The president also proposes to begin a permanent research and experimentation (R&E) tax credit.

As in previous budget proposals, federal funding for international trade-related programs is dispersed across a large number of functions. The budget would increase funding slightly for trade-related agencies whose responsibilities include promoting exports, making trade policy, investigating trade complaints, and monitoring the competitiveness of domestic industries.

- **EMPLOYMENT AND TRAINING** -- The president's request for fiscal 1989 proposes budget authority of \$5.7 billion for employment and training, an increase of \$430 million over current amounts. The budget calls for level-funding at \$1.8 billion for the core section of the Job Training Partnership Act (JTPA), Title IIA block grants to states for training programs for the economically disadvantaged. These funds are expected to serve over one million people, the same number as this year. The Summer Youth Employment and Training Program (SYETP), Title IIB of JTPA, also would be level-funded at \$718 million, although amendments will be proposed to allow states and localities to use these funds for year-round programs. Last year's budget advanced a similar program change, targeted to AFDC youth. Another JTPA program, the Job Corps, is expected to serve the same number of youth next year as this, 40,500, although funds would be reduced slightly from \$716 million in fiscal 1988 to \$711 million in fiscal 1989.

The real increase in employment and training comes in programs for dislocated workers. For a second year, the administration has proposed replacement of the current Title III of JTPA and the Trade Adjustment Assistance (TAA) program with a consolidated Worker Readjustment Assistance Program (WRAP), funded at \$980 million, the same amount proposed last year. In comparison, Title III is funded at \$287 million, TAA training at \$48 million, and TAA benefits at \$138 million in fiscal 1988. The budget proposes to use the existing \$287 million in Title III money for transition to the new program, and it requests no new funds for TAA. WRAP differs from the current Title III program in that it contains two tiers of funding--a basic tier for job search activities and a more intensive training tier in which states would be required to apply for funding from the Secretary of Labor. Also, WRAP contains no income support component as does TAA. Congress rejected the WRAP approach last year and both the House and Senate have passed new dislocated worker legislation as part of the omnibus trade package, now in conference.

In other employment and training matters, the president's budget proposes funding the Employment Service at \$926 million, a decrease of \$56 million from fiscal 1988 levels, with new WRAP funds expected to make up the difference. The administration also plans to continue the consultative process it began last year on Employment Service reform. As in previous years, no funding is requested for the work incentive (WIN) program, in the expectation that welfare reform will assume this program's functions. Finally, the Targeted Jobs Tax Credit (TJTC) would be allowed to expire, as scheduled, on December 31, 1988.

- **EDUCATION** -- The president's budget for fiscal 1989 proposes to increase funding for education programs to \$20.8 billion, an increase of \$904 million from the level enacted for fiscal 1988. Chapter I of the Education Consolidation and Improvement Act, the major federal program of compensatory education for disadvantaged youngsters, would be funded at \$4.6 billion, an increase of \$238 million over its present amount. Chapter II, the state block grant program, also would receive more funds--\$540 million as compared with \$478 million in this fiscal year. Both of these programs are currently awaiting reauthorization in Congress.

The budget proposes spending authority of \$150 million for adult education, an increase of \$26 million over the fiscal 1988 level. The administration envisions increases for this primary federal literacy effort to a level of \$200 million by 1993. The budget also proposes to maintain funding for vocational education at its present level of \$888 million. Last year, the president's budget proposed the elimination of all federal funding for vocational education, but Congress rejected this suggestion. Other education programs also fare well in the budget, including the National Assessment of Educational Progress; it would receive a funding increase of \$2.5 million, from \$5.1 million to \$7.6 million, in order to provide state-representative data.

In the area of higher education, the president's budget generally calls for higher funding in fiscal 1989. In the Pell Grant program, which was slated for large reductions last year, the administration proposes an increase from the current level of \$4.2 billion to \$4.7 billion. The president will propose legislation to suspend temporarily the requirement that parents contribute a part of the value of non-liquid assets to the cost of their children's education. The president also will seek to limit the eligibility for aid to those with a high school diploma. Finally, to overcome a shortfall in funds needed for this year, unspent prior-year funds would be added to the present appropriation, and current Pell Grant awards would be reduced across the board by an amount now estimated at \$31 per student.

The budget proposes the expansion of the Income-Contingent Loan Program, newly enacted in 1986, from its start-up level of \$4.3 million to \$50 million in fiscal 1989. While substantial, this increase is significantly less than the \$600 million envisioned for this program in last year's budget. Because of the build-up, however, the budget requests no funds for Perkins Loans or State Student Incentive Grants. Meanwhile, the administration requests budget authority of \$2.7 billion for the Guaranteed Student Loan Program, up from \$2.6 billion in fiscal 1988.

- **UNEMPLOYMENT INSURANCE** -- The president's budget estimates total outlays for unemployment compensation (UI) at \$16.4 billion in fiscal 1989, up from \$15.8 billion in fiscal 1988. The increase is attributed to rises in weekly benefit amounts and to an increase in the number of workers who will receive benefits from an average of 1.9 million workers per week in 1988 to 2.0 million per week in 1989. This year's proposal makes no mention of devolution of greater administrative responsibility for UI to the states, a prominent feature of budget submissions in the last two years.
- **FAMILY ASSISTANCE** -- The administration request estimates that federal grants to states for Aid to Families with Dependent Children (AFDC) and

Child Support Enforcement (CSE) will total \$10.8 billion in fiscal 1989, the same figure as in fiscal 1988. About 3.8 million families are expected to receive AFDC next year, and child support collections will be made for about 0.9 million of these. Outlays for Food Stamps will total \$12.5 billion in fiscal 1989, with 18.8 million people receiving benefits each month.

As in last year's budget, the administration continues to support a welfare reform package as contained in the AFDC Employment and Training Reorganization Act of 1987. Outlays under this version of welfare reform are expected to be \$168 million in fiscal 1989. States would be allowed to try out various alternatives to current income maintenance programs, child support enforcement would be strengthened, and the WIN program would be eliminated. The House of Representatives already has passed a more comprehensive version of employment preparation for welfare recipients, and similar legislation introduced by Sen. Daniel Patrick Moynihan (D-NY) is awaiting action in the Senate.

- **ENERGY** -- The administration's fiscal 1989 budget request for energy repeats many of the themes in last year's submission: a 49 percent decrease in budget authority for fossil energy research and development and a 18 percent reduction for solar and renewable energy research and development; no new energy conservation grants; repeal of the Windfall Profit Tax; sale of the Naval Petroleum Reserves, the Alaska Power Administration in 1989, and the Southeastern Power Administration in 1990; and reform of the Rural Electrification Administration's direct loan and loan guarantee program.

The budget calls for a 48.9 percent decrease in budget authority for fossil energy research and development from \$327 million to \$167 million in fiscal 1989. Coal research and development would be cut from \$234 million to \$102 million, a 56.4 percent reduction. The solar and renewable energy technology base authority would be reduced from \$118 million in fiscal 1988 to \$97 million in 1989, an 18 percent reduction.

Energy conservation funds would fall from \$310 million in budget authority in fiscal 1988 to \$89 million in fiscal 1989, a decrease of 71 percent. Conservation research and development funds would decline from \$156 million to \$86 million, a reduction of 45 percent. The administration's budget included no new budget authority for state and local conservation grants. The budget request assigns responsibility for these services to the states, citing state receipt of oil overcharge funds as a revenue source despite the court's direction that these monies are to be used to supplement not supplant federal funds.

The Northeast-Midwest region has the highest energy prices in the continental United States and produces about 30 percent as much energy as it consumes. Programs that promote energy-efficiency improvements help stem the regional outflow of capital for energy purchases, which totaled \$183 billion in 1985. The region benefits particularly from energy conservation grants and research and development. In fiscal 1988, 63 percent of weatherization assistance grants will go to states in the region. In addition, conservation R&D has the potential of improving the competitiveness and trade posture of the region's industries, many of which employ older, less energy-efficient technologies.

In order to fill the Strategic Petroleum Reserve (SPR) at the current rate of 50,000 barrels per day, the administration proposes \$334 million in budget authority for fiscal 1989. If Congress authorizes the sale of the Naval Petroleum Reserves (NPR) for an estimated \$3.2 billion in fiscal 1989, the administration proposes to provide an additional \$477 million to increase the SPR fill rate to 100,000 barrels per day, and an additional \$208 million to establish a separate 10-million barrel defense petroleum inventory.

The administration proposes to sell the Alaska Power Administration (APA) in fiscal 1989 for \$100 million in revenues. In addition, it assumes passage of legislation authorizing a study of the sale of the Southeastern Power Administration, assuming a sale in 1990.

The administration intends to substitute Rural Electrification Administration (REA) partial guarantees of private-sector loans to REA borrowers for the subsidized direct REA loans. The administration justifies this request by pointing out that the REA goals of providing electric and telephone service to rural areas are largely accomplished. This change would lower budget authority for REA by \$1.3 billion in fiscal 1989, a reduction of 91 percent.

The administration points to improvement in energy markets from the reduction of government intervention and outlines further goals in this area. It proposes the elimination of controls on natural gas prices, provision of open access to natural gas pipelines, deregulation of the nation's oil pipelines, and the adoption of new regulatory proposals to increase competition in the electric utility industry.

- **LOW-INCOME HOME ENERGY ASSISTANCE (LIHEAP)** -- The president proposes a 23 percent reduction in the Low-Income Home Energy Assistance Program from \$1,532 million in fiscal 1988 to \$1,187 million in fiscal 1989. The requested amount would mean a 35 percent decrease since fiscal 1987. The administration bases its request on the argument that states should use oil overcharge funds to make up the funding shortfall, despite the fact that current funding levels are inadequate and many states already have allocated most of their oil overcharge funds. The Northeast-Midwest region will receive 64 percent of LIHEAP funds in fiscal 1988.
- **DEFENSE** -- The president's budget request calls for \$299.5 billion in budget authority and \$294.0 billion in outlays for national defense in fiscal 1989. These funding levels reflect the bipartisan budget agreement of November 20, 1987. The president's request represents an \$8.1 billion increase in budget authority and an \$8.6 billion increase in outlays over fiscal 1988 levels. Budget authority for national defense for fiscal 1989 would represent 27.4 percent of the total federal budget. If enacted, the fiscal 1989 request would result in real decreases in military spending of just less than 1 percent for both budget authority and outlays.

Budget authority of \$78,399 million for military personnel would make up 26.2 percent of the entire military budget, a real decrease of 0.18 percent from fiscal 1988 funding levels. Budget authority of \$85,649 million for operations and maintenance would make up 28.6 percent of the military budget and would receive a real increase of 1.5 percent. Budget authority of \$80,037 million for procurement would make up 26.7 percent of the entire

military budget, a real decrease of 4.3 percent from fiscal 1988 levels. Budget authority of \$5,743 million for military construction would constitute 1.9 percent of the overall military budget in fiscal 1989, a real increase of 3.7 percent over fiscal 1988 levels. Budget authority of \$38,157 million for research, development, testing, and evaluation would make up 12.7 percent of the military budget, a real increase of 0.32 percent over fiscal 1988 funding levels.

- **WATER RESOURCES** -- The president requests an increase in budget authority for the Army Corps of Engineers' civil works program, from \$3.47 billion in fiscal 1988 to \$3.54 billion in fiscal 1989. The budget reflects the higher level of activity begun in fiscal 1987 authorized by H.R. 6, which provided \$16.3 billion in new spending authority for Corps projects. In fiscal 1987 about 24 percent of Corps funds was spent in the Northeast-Midwest region, up from an average 20 percent in earlier years.

The administration's request would increase budget authority for fiscal 1989 by \$20 million for the Bureau of Reclamation to \$1.08 billion, despite uncertainty about its future mandate. The Bureau operates solely in 17 western states, directing none of its benefits to the Northeast-Midwest region. After a lengthy internal study in 1987, the Bureau proposed a fundamental shift away from large, capital-intensive water resources projects to water resources management--including groundwater protection. These changes will require further congressional action to implement fully.

- **NATURAL RESOURCES AND ENVIRONMENT** -- Outlays for the natural resources and environment activities would increase from \$15.14 billion to \$16.02 billion in fiscal 1989, while budget authority would drop \$233 million below fiscal 1988 levels and \$582 million below that needed to maintain current services. Sharply reduced budget authority for the construction grants program is a principal reason for the 11.5 percent decline in budget authority for the Environmental Protection Agency.

Water Quality. The president requests \$1.5 billion in budget authority for Clean Water Act (CWA) construction grants in fiscal 1989, \$804 million below the fiscal 1988 level. Half of the funds would go for grants and the other half to establish state revolving loan fund programs. Outlays would decline from \$2.57 billion in fiscal 1988 to \$2.38 billion in fiscal 1989 and fall off more in subsequent years. The reduced funding levels are part of the president's proposal to phase out federal funding assistance for construction of municipal wastewater treatment systems by 1993, and spend a total of only \$12 billion from fiscal 1986 to fiscal 1993. Congress rejected a similar proposal last year, overriding the president's pocket veto of the CWA amendments and calling instead for spending \$18 billion through fiscal 1994. The Northeast-Midwest region receives approximately 54 percent of grants allocated under the program.

The administration recommends decreased funding for EPA's Great Lakes National Program Office and the same funding for the Chesapeake Bay Program as fiscal 1988. The proposal requests \$9.4 million in outlays for the Great Lakes National Program Office, down from \$9.8 million in fiscal 1988, and \$11.5 million for the Chesapeake Bay Program.

The administration's budget would increase spending for abandoned hazardous waste sites and leaking underground storage tank cleanups, but keeps

spending well below the accumulation rate of the trust funds and congressionally authorized funding levels. The proposal requests outlays of \$1.2 billion and budget authority of \$1.6 billion for the Superfund program. While proposed outlays are \$423 million above fiscal 1988 levels, they are only \$90 million above the outlays expected if current services were continued. The large jump in outlays is a delayed response to increases in obligations for cleanups following the 1986 reauthorization of Superfund.

The president requests \$50 million in new budget authority for the Leaking Underground Storage Tank (LUST) trust fund. The budget request estimates relatively low outlays of \$23 million for fiscal 1988 and \$32 million for fiscal 1989, apparently reflecting the slow pace of program development in many states. If more were targeted to states ready to use the funds, money already accumulated in the trust fund could be spent much more rapidly.

Clean Coal and Acid Rain. The administration has requested an additional \$1.775 billion in budget authority for the Clean Coal Technology (CCT) program in the Department of Energy beginning in fiscal 1990 (\$575 million in fiscal 1990, \$600 million in fiscal 1991, and \$600 million in fiscal 1992). In the past three years, Congress has appropriated nearly \$1 billion for this program, including an advanced appropriation of \$525 million for fiscal 1989. Although the administration claims that this funding is needed to fulfill a commitment to Canada to develop technologies that control acid rain, others question whether CCT demonstrations will have a significant, near-term effect on pollution unless specific emission reductions are required.

U.S. Forest Service. The administration has proposed an overall reduction of \$138.2 million in budget authority for the U.S. Forest Service, not including trust funds, from \$2.15 billion in fiscal 1988 to \$2.01 billion in fiscal 1989. Most of the Forest Service budget is spent on the national forest system located mainly in western states. Budget authority for administration of the national forests would be reduced 6.7 percent, from \$1.24 billion to \$1.16 billion, while construction in national forests would be trimmed 4.7 percent, from \$214.1 million to \$204.0 million. The programs of greatest value to the Northeast-Midwest region--the Research and the State and Private Forestry (S&PF) programs--help private landowners who predominate in these states. The administration's proposal would lower research budget authority from \$135.5 million to \$129.3 million in fiscal 1989. The S&PF program, slated for the largest percentage cut of any Forest Service program, would be reduced 54.5 percent, from \$76.5 million to \$34.8 million.

- **AGRICULTURE** -- The president's budget proposal for the Department of Agriculture is consistent with the terms of the "budget summit" agreement reached with Congress last fall. The budget contains few surprises and is noteworthy primarily because it abandons previous proposals for new user fees, changes in food assistance programs, and privatization of crop insurance. The administration estimates cash outlays for all programs at \$48.3 billion--a \$2.4 billion reduction (4.7 percent) from the current estimate for fiscal 1988.

Outlays for agricultural price supports peaked at \$25.8 billion in fiscal 1986 and declined to \$22.5 billion in fiscal 1987--the first year in which

provisions of the 1985 farm bill were fully in effect. Net Commodity Credit Corporation (CCC) outlays are projected at \$17.7 billion for fiscal 1988 and \$17.1 billion for fiscal 1989 (exclusive of credit reform). Stronger domestic demand and export markets for program commodities (wheat, feed grains, etc.) account for the lower estimated outlays.

Last August, the administration estimated net CCC outlays for fiscal years 1988 and 1989 at \$39.7 billion. The current estimate of \$34.8 billion reflects improved supply and demand conditions and provisions in the Omnibus Budget Reconciliation Act of 1987. These provisions include a 1.4 percent decrease in target prices, adjustments to crop loan rates, a 10 percent paid diversion for feed grains, and a reduction in outlays for non-target price commodities.

The administration proposes to reduce the appropriated limit for the export guarantee loan program from \$5 billion to \$3 billion to reflect historic demand. The value of agricultural exports was \$27.9 billion in fiscal 1987; imports totaled \$20.6 billion.

The administration proposes to reduce the funding level for agricultural research and services to \$1.9 billion in fiscal 1989, a \$0.2 billion decrease from the estimated level for fiscal 1988. Outlays for the Cooperative State Research Service would decrease by \$28.5 million, a cut of 9.4 percent. Outlays for Extension Service programs would decrease by \$41.0 million, a cut of 11.6 percent. The administration places research priority on genetics and biotechnology; minimizing agriculture's impact on groundwater; determining the effects of stratospheric ozone depletion on crops; detecting food residues and impurities; and diversifying rural and small community economies.

The fiscal 1989 budget for soil and water conservation programs reflects the high priority the administration gives to implementing the conservation title of the 1985 farm bill. The administration requests appropriations of nearly \$1.9 billion for the fourth year of the Conservation Reserve Program (CRP), which will retire 45 million acres of highly erodible land. The CRP currently has 23 million acres enrolled in ten-year contracts. These contracts will prevent 466 million tons of soil erosion annually and reduce commodity program bases by 14.6 million acres.

- **TRANSPORTATION** -- The administration's proposed budget for transportation reflects the same priorities as last year's request, which emphasized user fees as a means to finance transportation expenses, the elimination of subsidies for Amtrak, and the continuation of the Federal Aviation Administration's (FAA) modernization program.

The administration proposes to lower annual obligations for the federal-aid highways program from the estimated \$13.0 billion in fiscal 1988 to \$12.3 billion in fiscal 1989. This reduction would limit obligations from the highway account of the highway trust fund to anticipated user fee receipts during the 1987-1991 authorization period.

In the same manner, the president will propose legislation to target mass transit funding to the level of the dedicated one cent per gallon tax on gasoline, thus requesting a fiscal 1989 budget authority of \$1.4 billion. The administration intends to eliminate the discretionary grant program and

distribute fuel tax receipts by formula. States and localities could use their formula grant funds on public transportation capital projects, provided they match the contributions by at least 50 percent. The administration also proposes to terminate operating subsidies to large and medium-sized cities, but not small urban and rural areas. These mass transit proposals would result in a 58 percent decrease in budget authority for the Urban Mass Transportation Administration from fiscal 1988, a loss of \$1.96 billion.

The administration proposes to end all Amtrak subsidies in fiscal 1989, decreasing the Federal Railroad Administration's budget authority from an estimated \$671 million in fiscal 1988 to \$57 million in fiscal 1989. With the elimination of these subsidies, the administration assumes a savings of approximately \$570 million. The administration did not include any potential revenues derived from the sale of Amtrak because the President's Privatization Committee is still considering the issue.

The administration has proposed budget authority of \$6.9 billion for the FAA in fiscal 1989, a 13 percent increase from the estimated \$6.1 billion in fiscal 1988. This increase follows an estimated 29 percent increase from fiscal 1987 to fiscal 1988. This year's proposed increase in funding results primarily from two program changes. The administration proposes a 44 percent increase, from \$1.1 billion in fiscal 1988 to \$1.6 billion in fiscal 1989, to modernize the airspace system. It also requests a 9.4 percent increase, from \$3.1 billion in fiscal 1988 to \$3.4 billion in fiscal 1989, for FAA operations.

INTRODUCTION

The following analysis of the president's budget for fiscal 1989, prepared by the staffs of the Northeast-Midwest Congressional Coalition, the Northeast-Midwest Senate Coalition, and the Northeast-Midwest Institute, focuses on federal programs that have a significant impact on the region's states and their more than 100 million residents. It begins with a section entitled "Economic Outlook," designed to establish a context in which the budget may be viewed. That is followed by a "Budget Overview," which outlines the major features of the federal budget. Accompanying tables provide greater detail on these sections. The analysis of the budget proposal itself is organized into eight major sections, each encompassing a cluster of related areas of federal spending. Each section begins with a summary, followed by separate subsections on federal programs or activities. Effects of budget and program changes on the economy of the Northeast-Midwest region are examined in each section.

The sections and subsections are as follows:

1. Community and Economic Development

- Community Development Block Grants
- Urban Development Action Grants
- Economic Development Administration
- Small Business Administration
- HUD-Assisted Housing
- Rural Economic Development and Housing
- Development Incentives in the Tax Code

2. General Space, Science, and Technology

- Civilian vs. Military Research and Development
- NASA
- National Science Foundation
- Department of Energy General Science Program

3. Human Resources

- Employment and Training
- Education
- Unemployment Insurance
- Family Assistance

4. Energy

- Energy Conservation
- Low-Income Home Energy Assistance Program
- Energy Research and Development
- Energy Information Administration
- Electricity
- Oil Import Fee

5. Defense

- Procurement
- Military Personnel
- Research and Development
- Military Construction

6. Natural and Physical Resources

- Water Supply and Treatment
- Environmental Protection

7. Agriculture

- Commodity Price Support Programs
- Export Programs
- Farm Credit
- Agricultural Research and Services
- Conservation Reserve

8. Transportation

- Mass Transit Assistance
- Amtrak
- Federal-Aid Highways Fund
- Federal Aviation Administration
- St. Lawrence Seaway

A budget overview for each section gives the actual budget authority and outlays for fiscal 1981 and 1987 for the programs under discussion and compares them with funding levels for fiscal 1988 and 1989 proposed by Ronald Reagan.

Tables detailing the regional and state-by-state distribution of program funds for the most recent year available, along with tables providing other relevant statistical information, are grouped at the end of each section.

PROGRAMS BY FUNCTION

050	National Defense	
051	Military Personnel	Section Five
051	Operations and Maintenance	Section Five
051	Procurement	Section Five
051	Research and Development	Section Five
051	Military Construction	Section Five
051	Family Housing	Section Five
051	Atomic Energy	Section Four and Five
250	General Science/Space/Technology	
251	National Science Foundation	Section Two
251	DOE General Science and Research Activities	Section Two
253,254,255	NASA Space, Research and Technology	Section Two
270	Energy	
271	Nuclear	Section Four
271	Solar and Other Renewables	Section Four
271	Energy Supply	Section Four
271	Coal Research and Development	Section Four
271	Fossil Energy Total	Section Four
271	Clean Coal Technology	Section Four and Six
271	Power Marketing Administrations	Section Four
271,304	EPA Research and Development	Section Six
271,452	Rural Electrification Administration	Section Four
272	Energy Conservation	Section Four
274	SPR Petroleum	Section Four
276	Energy Information Administration	Section Four
300	Natural Resources and Environment	
301	Army Corps of Engineers	Section Six
301	Bureau of Reclamation	Section Six
301	Soil Conservation Service	Section Six
304	EPA Wastewater Construction Grants	Section Six
304	EPA Superfund	Section Six
304	EPA Abatement, Control, and Compliance	Section Six
304,271	EPA Research and Development	Section Six
350	Agriculture	
351	Commodity Credit Corporation	Section Seven
351	Agricultural Credit Insurance Fund	Section Seven
352	Extension Service	Section Seven
352	Cooperative State Research Service	Section Seven
370	Commerce and Housing Credit	
371	Elderly/Handicapped	Section One
376	SBA Business Loan and Investment Fund	Section One

400	Transportation	
401	UMTA Formula Grants	Section Eight
401	Section 3 Discretionary Grants	Section Eight
401	Interstate Transfer Grants	Section Eight
401	Federal-Aid to Highways	Section Eight
401	Highway Traffic Safety Grants	Section Eight
401	Motor Carrier Safety Grants	Section Eight
401	Interstate Commerce Commission	Section Eight
401	Northeast Corridor Improvement Program	Section Eight
401	Amtrak	Section Eight
401	Railroad Rehabilitation and Improvement	Section Eight
402	Grants in Aid for Airports	Section Eight
402	Total Trust Funds for Federal Aviation Admin.	Section Eight
403	St. Lawrence Seaway	Section Eight
450	Community and Regional Development	
451	Community Development Block Grants	Section One
451	Urban Development Action Grants	Section One
451	Section 108	Section One
451	Housing Development Grants	Section One
451	Rental Rehabilitation	Section One
452	Economic Development Administration	Section One
452	Appalachian Regional Commission Programs	Section One
452	Rural Development Insurance Fund	Section One
452,271	Rural Electrification Administration	Section Four
500	Education, Training, Employment and Social Services	
501	Chapter I Education for Disadvantaged Children	Section Three
501	Chapter II Block Grants and School Improvement	Section Three
501	Vocational and Adult Education	Section Three
501	Special Education	Section Three
501	Bilingual Education	Section Three
501	Impact Aid	Section Three
502	Guaranteed Student Loans	Section Three
502	Student Financial Assistance	Section Three
504	Employment and Training	Section Three
504	Training for Disadvantaged	Section Three
504	Summer Youth Employment	Section Three
504	Title III Assistance to Dislocated Workers	Section Three
504	Job Corps	Section Three
504	Employment Service	Section Three
504	Work Incentive Program	Section Three
600	Income Security	
603	Unemployment Compensation	Section Three
609	AFDC/CSE	Section Three
604	Rural Housing	Section One
604	Public Housing including CIAP	Section One
604	Operating Subsidies for Public Housing	Section One
604	Assisted Housing	Section One
605	Food Stamps	Section Three
609	Low-Income Home Energy Assistance	Section Four

ECONOMIC OUTLOOK

The fiscal 1989 budget is being considered amidst substantial economic uncertainty. The October 1987 stock market crash wiped out hundreds of billions of dollars of consumer wealth and contributed to a drop in consumer spending. Forecasters may have tempered the gloomiest of post-crash projections, but they concede that economic trends are in doubt.

The state of the nation's economy has a profound impact on the federal budget. Strong growth translates into higher tax receipts and lower unemployment expenses. A recession, in contrast, would curtail economic activity and increase the federal deficit. If the nation's Gross National Product (GNP) would decline by \$10 billion, for instance, federal receipts would fall by approximately \$2.3 billion; a \$100-billion reduction in nominal, or non-inflation adjusted, GNP would result in a \$23 billion shortfall in federal revenues.

Rarely have the economic assumptions been as divergent as they are this year. If federal spending and revenue policies continue according to current law, the Congressional Budget Office (CBO) predicts a deficit of \$177 billion in fiscal 1989, while the president's Office of Management and Budget (OMB) forecasts a deficit below \$143 billion.

Economic forecasting is never a precise art. Both CBO and OMB have guessed wrong about the economy in most of the past seven years. Still, forecasts have assumed a critical role in projecting deficits, and it is deficit projections that trigger automatic spending cuts.

This year's economic signals are conflicting. Negative trends include the decline in consumer spending and the growth of unsold business inventories. Some indications of strength, however, are the rise of net exports and the increase in the savings rate.

CBO foresees slower real growth, higher inflation, and higher interest rates during the next two years than does the Administration. The agency projects that the decline in consumer spending and the growth of unsold business inventories will retard economic expansion.

OMB disagrees. The administration believes that three years of dollar depreciation have already improved net exports to the point that the economy is making a major adjustment from consumer spending to export-led growth. It maintains that net exports will contribute almost half of fiscal 1989's projected growth.

Gross National Product. The administration forecasts modest inflation-adjusted economic growth (2.4 percent fourth quarter to fourth quarter) in 1988. The estimate is well below the 3.8 percent gain last year, but it remains slightly more optimistic than either CBO or most private economists, who anticipate sluggish growth of less than 2 percent.

The differing forecasts continue for 1989, with the administration expecting real GNP growth to accelerate to 3.5 percent, while CBO and the private-sector consensus estimate a rise to only 2.6 to 2.2 percent, respectively. (OMB notes that if real GNP growth falls one percentage point lower than it projects, 1989 receipts would be lower by \$5.9 billion and 1989 outlays would be higher by \$1.8 billion, primarily because of unemployment-sensitive programs.)

Projected Increase in Real Gross National Product
(percent change, calendar year)

	1988	1989
President's Fiscal 1989 Budget	2.4	3.5
Congressional Budget Office	1.8	2.6
Consensus of Private Economists	1.8	2.2

SOURCE: Congressional Budget Office, An Analysis of the President's Budgetary Proposals for Fiscal Year 1989 (Washington, D.C., March 1988), Table II-1.

Interest Rates and Inflation. Interest rates are of growing significance because interest payments have become the third largest item in the budget after defense and Social Security. OMB notes that a 1-percent increase in inflation and interest rates during fiscal 1989 would reduce federal receipts by \$6.6 billion and increase outlays by \$7.8 billion.

The administration expects the rate of inflation as measured by the Consumer Price Index to moderate only slightly, falling from 4.5 percent in 1987 to 4.3 percent in 1988 and to 3.9 percent in 1989. It assumes that large stockpiles of oil will maintain relatively stable energy prices. Import prices, however, will rise because of the fall in the dollar's value.

The administration also anticipates short- and long-term interest rates to decline further. It argues that slower economic growth and continued federal budget restraint will reduce the demand for credit, allowing interest rates to fall. It predicts that the interest rate on 91-day Treasury bills will decline from 5.8 percent in 1987 to 5.3 percent in 1988 and to 5.2 percent in 1989. The administration admits, however, that this decline depends on "the ability of the Federal Reserve to follow a monetary policy that will lead to further disinflation."

CBO forecasts slightly higher inflation and interest rates. The Consumer Price Index, it says, will rise to 4.9 percent in 1988, falling to only 4.8 percent in 1989. The agency expects the interest rate on 91-day Treasury bills to rise to 6.2 percent in 1988 and to 6.7 percent in 1989. The difference between the administration and CBO forecasts is significant. CBO's higher interest rate estimate projects \$13 to \$15 billion more in additional interest outlays on the federal debt in 1989 than OMB.

Projected Rise in Consumer Price Index
(percent change, calendar years)

	1988	1989
President's Fiscal 1989 Budget	4.3	3.9
Congressional Budget Office	4.9	4.8
Consensus of Private Economists	4.1	4.7

SOURCE: Congressional Budget Office, Table II-1.

Unemployment. The unemployment rate has continued a gradual decline for the past several years. In fact, the total unemployment rate fell from 6.7 percent in the fourth quarter of 1986 to 5.7 percent in January 1988, its lowest level since 1979. Employment over this period increased by over 3 million jobs.

After two years of decline, manufacturing employment rose by over 400,000 from December 1986 to December 1987. The recovery of manufacturing results primarily from the improved international competitiveness of U.S. products after years of dollar depreciation.

The administration expects the total unemployment rate to remain fairly stable, rising slightly to 5.8 percent in 1988, before falling to 5.5 percent in 1989. The resumption of faster growth, according to the administration, should drive increased employment. CBO is less optimistic, forecasting a 6.2 percent rate in 1988 and 6.0 percent in 1989.

Projected Unemployment Rate
(annual average percentage)

	1988	1989
President's Fiscal 1989 Budget	5.8	5.6
Congressional Budget Office	6.2	6.1
Consensus of Private Economists	6.0	6.1

SOURCE: Congressional Budget Office, Table II-1.

If Congress accepts the administration's more optimistic economic forecasts, as seems likely, it can essentially follow the strictures of last fall's budget-summit agreement to meet the \$146 billion deficit target required to avoid automatic spending cuts. If the OMB director, however, finds in October 1988 that economic conditions have raised the estimated deficit for fiscal 1989 above the \$146-billion target, automatic across-the-board cuts could be imposed.



BUDGET OVERVIEW

Background: Four Events Last Fall

A series of events in the last four months of 1987 has set the stage for the consideration of the fiscal 1989 federal budget:

- * On September 29, President Reagan signed legislation that revised the deficit targets and restored the automatic trigger to the Gramm-Rudman-Hollings Act (GRH). The measure required \$23 billion in deficit reduction in fiscal 1988. Automatic across-the-board cuts will be imposed for fiscal 1989 if the director of the Office of Management and Budget (OMB) finds that the estimated deficit for fiscal 1989 is greater than \$146 billion (\$136 billion plus a \$10-billion cushion) and if less than \$36 billion in deficit reduction has been achieved since January 1, 1988.
- * On October 19 the Dow Jones Industrial Average fell a record 508 points, which prompted the president to engage Congress in negotiations to reach a cooperative agreement in order to avoid automatic across-the-board cuts in the fiscal 1988 budget.
- * On November 20, the president and congressional leaders announced the achievement of a bipartisan budget agreement to reduce the fiscal 1988 deficit by \$30 billion and the fiscal 1989 deficit by \$46 billion from the baseline established in the GRH Act.
- * On December 22 the president signed two pieces of legislation--a continuing resolution and a reconciliation bill--which incorporated the bipartisan budget agreement reached during the budget summit. These laws were projected to reduce the fiscal 1988 deficit by \$34 billion and the fiscal 1989 deficit by \$36 billion. An additional \$7 billion in deficit reduction was anticipated for fiscal 1989 as a result of agreed upon measures to be enacted during consideration of the fiscal 1989 budget.

The President's Fiscal 1989 Budget Request

Using somewhat rosy economic assumptions, the president's February 18 budget proposal complies with the deficit reduction targets contained in last September's revision of the GRH Act. The president's proposal also adheres to the spending caps for defense, international, and domestic discretionary spending contained in last November's bipartisan budget agreement.

Baseline Deficits

The "baseline deficit" is the projected difference between outlays and revenues if current policies remain unchanged. Last September's revision of

the GRH Act specified a "GRH baseline" that is to be used to measure progress in meeting the act's deficit targets.

BUDGET SUMMARY
(in billions of dollars)

Function	1981 Actual	1987 Actual	1988 Estimate	1989 President's Request	1989 House Resolution
Budget Authority	749.1	1,099.9	1,175.7	1,222.2 ¹	1,232.1
Budget Outlays	678.2	1,004.6	1,055.9	1,094.2	1,098.2
Revenues	599.3	854.1	909.2	964.7	964.2
Deficit	-78.9	-150.4	-146.7	-129.5	134.0
Gramm-Rudman-Hollings Target		-144.0	-144.0	-136.0	-136.0
Difference		6.4	2.7	-6.5	-2.0

¹ Based on unpublished computer run from Congressional Budget Office that excludes the president's credit initiative.

OMB has forecast a fiscal 1989 GRH baseline deficit of \$142.7 billion. CBO, however, has estimated the fiscal 1989 baseline deficit to be \$177 billion, far in excess of the fiscal 1989 GRH deficit target of \$136 billion. The bulk of the difference is due to the impact of the administration's relatively optimistic economic assumptions on anticipated revenues and the cost of interest payments on the national debt.

The administration has estimated a 3.5 percent rate of economic growth in 1989. This allows OMB to forecast \$10 billion more in revenue than CBO, which anticipates a growth rate of only 2.6 percent. The administration's forecast of 1989 interest rates (5.2 percent for 90-day Treasury bills and 7.4 percent for 10-year Treasury notes) results in interest payments on the debt that are \$14 billion below the CBO projection, which assumes much higher interest rates (6.7 percent for 90-day Treasury bills; 9.5 percent for 10-year Treasury notes).

Budget Authority and Outlays

Budget authority (BA) permits obligations which will result in spending (outlays). Outlays occur when obligated budget authority actually results in the disbursement of funds from the Treasury. BA does not necessarily result in

spending only in the year in which it is provided, but, rather, can lead to outlays in several succeeding years, depending upon the nature of the obligation.

The rate at which BA is translated into outlays is known as the "spend-out rate." For example, within the Department of Defense budget, the personnel account has a "fast" spend-out rate because BA quickly results in outlays in the form of paychecks issued from the Treasury. The military construction account, however, has a "slow" spend-out rate because new BA results in outlays that are spread over a number of years as multi year construction programs proceed. Therefore, reductions in BA for programs with fast spend-out rates will provide more short-term outlay savings than similar reductions in slow spend-out programs.

For example, the president's proposed 23-percent cut in BA in fiscal 1989 for Low Income Home Energy Assistance, a program with a fast spend-out rate, would result in a 22-percent reduction in outlays in fiscal 1989. In contrast, the president's proposed 54-percent cut in BA in fiscal 1989 for mass transit, a program with a slower spend-out rate, would result only in a 5-percent reduction in outlays in fiscal 1989. The level of BA and its mix--between fast and slow spend-out programs--has considerable impact upon both current and future year outlays.

Traditionally, budget authority figures have been the focus of the congressional budget debate because they provide the best indication of the direction of policy within a budget. Outlays were seen as the incidental result of the policymaking reflected in the BA figures. Outlay figures, however, have assumed increased importance since the passage of the original GRH Act in December 1985. The budget debate focuses now upon compliance with the deficit targets set forth in the act. Compliance is determined by the deficit that results when subtracting revenues from outlays.

The president requests \$1.222 trillion* in new budget authority for fiscal 1989. This represents a nominal increase of 3.9 percent over fiscal 1988. (Nominal increases or reductions are not adjusted for inflation.) The president's budget requests \$1.094 trillion in outlays in fiscal 1989. This represents a nominal increase of 3.6 percent over fiscal 1988.

The Bipartisan Budget Agreement

In major program areas, the president's budget conforms to the bipartisan budget agreement (see table) while providing nominal increases in budget authority of 2.8 percent for national defense, 1.6 percent for discretionary international affairs programs, and 3.1 percent for domestic discretionary programs. The proposal projects a nominal increase of 4 percent in BA for entitlements and other mandatory programs. The president's budget also conforms to the bipartisan budget agreement (see table) while providing nominal increases in outlays of 3 percent for national defense, and 5.3 percent for domestic discretionary spending and a 1.0 percent reduction in outlays for international affairs. The proposal projects a nominal 4 percent increase in outlays for entitlements and other mandatory programs.

Budget Outlays by Major Program Area
(in billions of dollars)

	1987 Actual	1988 Estimate	1989 Request	Percent of Total 1989 Outlays	Percent Change 1988-1989	
					Nominal	Adjusted for Inflation
National Defense	282.0	285.4	294.0	26.9	3.0	-0.6
International Discretionary	12.8	15.8	15.6	1.4	-1.3	-4.9
Domestic Discretionary	148.1	160.6	169.1	15.5	5.3	1.4
Entitlements and Other Mandatories	459.6	491.6	511.5	46.8	4.0	0.2
Net Interest	138.6	147.9	151.6	13.9	2.5	-1.3
Asset Sales and Prepayments		-9.3	-10.0	-0.9	7.5	3.6
Other Undistributed Offsetting Receipts	-36.5	-36.1	-37.7	-3.4	4.4	0.6
Total	1,004.6	1,055.9	1,094.1	100.0	3.6	-0.2

SOURCE: Office of Management and Budget.

Comparison of Bipartisan Budget Agreement and President's Budget Proposal
(in billions of dollars)

	Bipartisan Agreement of 11/20/87		The President's 1989 [*] Budget Proposal		1989 House Resolution	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Defense	299.5	294.0	299.5	294.0	299.5	294.0
International	18.1	16.1	18.1	15.6	18.1	16.1
Domestic	148.1	169.2	147.6	169.1	148.1	169.2

* NOTE: For sake of consistency, the impact of the administration's credit initiative has been deleted, thereby reducing total budget authority by approximately \$11 billion below the total contained in the president's budget.

SOURCES: Office of Management and Budget and House Budget Committee.

Domestic Discretionary Programs

With the national defense and international affairs funding levels for fiscal 1989 determined by last fall's bipartisan budget agreement, the focus of this year's congressional budget debate will be on domestic discretionary programs. While the agreement also set overall funding levels for these programs, a lively debate will take place over the setting of spending priorities within the agreed-upon limits.

As previously indicated, the president proposes nominal increases of 3.1 percent in budget authority and 5.3 percent in outlays for domestic discretionary programs. The president, however, has by no means requested evenhanded, modest across-the-board increases.

Regional Bias of the President's Domestic Discretionary Budget

"It is inappropriate for the federal government to favor one region at the expense of another . . ."

--The President's Fiscal 1989 Budget Proposal

While the administration has consistently opposed regional economic development programs, the domestic spending priorities contained in the budget would promote one industry and the economy of the Sunbelt at the expense of the the economy of the Northeast-Midwest region.

The administration has proposed to eliminate or drastically reduce Urban Development Action Grants, Amtrak, mass-transit assistance, the Economic Development Administration, and Community Development Block Grants. These valuable programs have benefited the entire nation and continue to be instrumental to the broad-based economic revitalization of the Northeast-Midwest region.

At the same time, the president proposes a \$2.4 billion increase, to \$13.9 billion in budget authority for the National Aeronautics and Space Administration (NASA), a 29 percent increase over fiscal 1988. This includes an increase from \$0.4 billion to \$1 billion for the manned space station program, accompanied by a request for a three-year advance appropriation commitment of \$6 billion. The space station program is expected to bear a total price tag in excess of \$25 billion.

An examination of the flow of federal research and development funds by the National Science Foundation reveals that in fiscal 1986 the Northeast-Midwest region received only 28 percent of NASA's R&D spending. Four Sunbelt states, however--California, Florida, Texas and Virginia--received 52 percent of NASA R&D funds. A major increase in NASA funding would serve as a tremendous stimulus for economic activity in those few states fortunate enough to be among its beneficiaries.

Due to the overall cap placed on domestic discretionary programs by the bipartisan budget agreement, the administration's budget, in effect, proposes the elimination or reduction of economic development programs that are vital to the Northeast-Midwest region. The purpose is not to reduce the national deficit, but rather to help finance a 29 percent increase for NASA.

Asset Sales

Of the \$13.2 billion in deficit reduction claimed in the president's budget, \$10 billion is attained through asset sales and loan prepayments. For example, the president proposes the sale of the Naval Petroleum Reserve, the sale of the Rural Electrification Administration (REA) loan assets, and the prepayment of REA Federal Financing Bank Guaranteed Loans.

Revenues

The president's budget anticipates revenues of \$964.7 billion in fiscal 1989. It proposes changes in federal tax policy that will result in a \$700 million net increase in revenues in fiscal 1989. The budget also includes \$2.2 billion in revenue gainers--the largest single element of which is \$1.6 billion to come by making all state and local employees subject to the Medicare payroll tax. The budget includes \$1.5 billion in various revenue losers, including the renewal of a tax credit for research and development.

The Deficit

OMB estimates that the adoption of the president's proposal would result in outlays of \$1,094 billion and revenues of \$964.7 billion in fiscal 1989--leaving a deficit of \$129.5 billion. The deficit in the president's budget submission is \$6.5 billion below the GRH deficit target of \$136 billion for fiscal 1989. However, as previously noted, the \$10 billion deficit reduction in the budget resulting from asset sales and loan prepayments could not be counted when determining compliance with the GRH deficit target next October. Therefore, the deficit in the president's budget is actually \$139.5 billion, which is above the \$136 billion GRH deficit target but within the \$10 billion cushion provided in the GRH Act.

The Congressional Budget Office has reestimated the president's proposal using less optimistic economic assumptions and concluded that it would yield a fiscal 1989 deficit of \$165 billion.

Budget Authority
(in billions of dollars)

Function	1981 Actual	1987 Actual	1988 Estimate	1989 ¹ Request	Percent Change 1988-1989	
					Nominal	Adjusted for Inflation
050 National Defense	180.0	287.4	291.4	299.5	2.8	-0.7
150 International Affairs	27.4	18.7	16.2	16.2	0.0	-3.7
250 General Science/Space/ Technology	6.6	12.5	10.7	13.9	29.9	25.2
270 Energy	15.1	3.4	5.5	4.8	-12.7	-15.9
300 Natural Resources and Environment	11.2	14.6	15.4	15.2	-1.3	-4.9
350 Agriculture	13.4	25.4	22.5	23.7	5.3	1.5
370 Commerce and Housing Credit	12.8	10.9	16.3	11.9	-27.0	-29.7
400 Transportation	27.0	27.0	28.0	27.0	-3.6	-7.1
450 Community and Regional Development	10.0	6.6	9.5	6.2	-34.7	-37.1
500 Education, Training, Employment, and Social Services	32.9	33.2	35.0	36.3	3.7	-0.1
550 Health	27.0	41.3	45.5	48.8	7.3	3.3
570 Medicare	42.0	84.0	93.9	106.5	13.4	9.3
600 Income Security	129.7	160.7	171.0	173.2	1.3	-2.4
650 Social Security	134.6	226.9	256.5	278.9	8.7	4.8
700 Veterans Benefits and Services	23.2	27.5	28.2	29.1	3.2	-0.6
750 Administration of Justice	4.4	8.8	9.2	10.3	12.0	7.9
800 General Government ²	11.3	8.7	9.0	9.9	10.0	6.0
900 Interest	68.7	138.6	147.9	151.6	2.5	-1.3
920 Allowances	0.0	0.0	0.0	0.0		
950 Undistributed Offsetting Revenues	-28.0	-36.5	-36.1	-41.0	13.6	9.4
Total ³	749.1	1,099.9	1,175.7	1,222.0 ¹	3.9	0.1

¹ Excludes the administration's credit reform proposal. Total Budget Authority is therefore approximately \$11 billion less than that contained in the president's submission.

² Function 850 General Purpose Fiscal Assistance has been eliminated. Funding levels have been included in Function 800 General Government.

³ Totals may not add due to rounding.

SOURCE: Office of Management and Budget for fiscal years 1981, 1987, and 1988. For fiscal 1989, Congressional Budget Office, unpublished computer run, March 9, 1988.

Budget Outlays
(in billions of dollars)

Function	1981 Actual	1987 Actual	1988 Estimate	1989 ¹ Request	Percent Change 1988-1989	
					Nominal	Adjusted for Inflation
050 National Defense	157.5	282.0	285.4	294.0	3.0	-0.6
150 International Affairs	13.1	11.6	9.9	13.3	34.3	29.4
250 General Science/Space/ Technology	6.5	9.2	10.9	13.1	20.2	15.8
270 Energy	15.2	4.1	2.7	3.1	14.8	10.6
300 Natural Resources and Environment	13.6	13.4	15.1	16.0	6.0	2.1
350 Agriculture	11.3	27.4	22.3	21.7	-2.7	-6.3
370 Commerce and Housing Credit	8.2	6.2	12.4	5.1	-58.9	-60.4
400 Transportation	23.4	26.2	27.2	27.3	0.4	-3.3
450 Community and Regional Development	10.6	5.0	6.3	6.0	-4.8	-8.2
500 Education, Training, Employment, and Social Services	33.7	29.7	33.7	34.9	3.6	-0.2
550 Health	26.9	40.0	44.5	47.8	7.4	3.5
570 Medicare	39.1	75.1	78.9	84.0	6.5	2.6
600 Income Security	99.7	123.2	129.6	135.6	4.6	0.8
650 Social Security	139.6	207.3	219.7	233.8	6.4	2.5
700 Veterans Benefits and Services	23.0	26.8	27.7	28.7	3.6	-0.2
750 Administration of Justice	4.8	7.5	9.0	9.9	10.0	6.0
800 General Government ²	11.4	7.6	8.8	9.5	8.0	
4.0						
900 Interest	68.7	138.6	147.9	151.6	2.5	-1.3
920 Allowances	0.0	0.0	0.0	0.0		
950 Undistributed Offsetting Revenues	-28.0	-36.4	-36.1	-41.0	13.6	9.4
Total ³	678.2	1,004.6	1,055.9	1,094.2	3.6	-0.1

¹ Excludes the administration's credit reform proposal.

² Function 850 General Purpose Fiscal Assistance has been eliminated. Funding levels have been included in Function 800 General Government.

³ Totals may not add due to rounding.

SOURCE: Office of Management and Budget for fiscal years 1981, 1987, 1988. For fiscal year 1989, Congressional Budget Office, An Analysis of the President's Budgetary Proposals for Fiscal Year 1989, Washington, D.C., March 1988.

SECTION ONE: ECONOMIC AND COMMUNITY DEVELOPMENT

Federal economic and community development programs, cut significantly in recent years, face additional reduction or total elimination in the president's fiscal 1989 budget proposal. The administration is pressing for numerous changes that, if enacted, would result in a substantially scaled-back federal role in economic and community development and housing programs.

The proposal reflects the administration's long-held conviction that economic development assistance should not be a federal function, and that private investment should be leveraged with state and local resources. It seeks only \$6.2 billion in new budget authority for community and regional development activities (function 450), 35 percent less than the fiscal 1988 appropriated level of \$9.5 billion. The budget also proposes lower levels for several commerce and housing credit programs (function 370) used to promote economic development activity. The president proposes to terminate the following:

- all Urban Development Action Grants, awarded by the Department of Housing and Urban Development (HUD);
- all Economic Development Administration (EDA) programs;
- Section 108 loan guarantee program offered by HUD; and
- all direct loan programs of the Small Business Administration (SBA).

The administration also would reduce new authority for HUD's Community Development Block Grant (CDBG) program by \$400 million, to \$2.48 billion in fiscal 1989, a 14 percent cut.

Housing programs, cut sharply over the last five years, would face a 19 percent reduction in budget authority from the congressionally authorized fiscal 1988 level of \$11.66 billion to \$9.41 billion, even though the administration proposes to increase the number of households assisted through Income Security programs (function 600) by expanding HUD's housing voucher program. Farmers Home Administration (FmHA) housing loan and guarantee programs, funded through function 370, are proposed for elimination, to be replaced by a scaled-back rural housing voucher program.

Because of these program cuts, which began in 1981, tax code incentives assumed a more prominent role in spurring economic development activity. However, the two most popular, rehabilitation tax credits and tax-exempt industrial development bonds (IDBs), were scaled back by the 1986 Tax Reform Act; subsequent use of these development incentives has declined. In its budget proposal, the administration does not anticipate any further changes in these tax code provisions.

BUDGET SUMMARY
(in millions of dollars)

Function		1981 Actual	1987 Actual	1988 Estimated	1989 Request	Percent Change	
						1988-1989	
						Nominal	Adjusted for Inflation
Community Development							
451	Community Development Block Grants						
	Budget Authority	3,694	3,000	2,880	2,480 ¹	-13.89	-17.04
	Outlays	4,042	2,991	2,980	2,959	-0.70	-4.34
451	Urban Development Action Grants						
	Budget Authority	675	225	216	-50 ²	-123.15	-122.30
	Outlays	388	354	400	366	-8.50	-11.85
451	Section 108						
	Budget Authority	NA	150	144	0	-100.00	-100.00
	Outlays	NA	0	0	0	0.00	0.00
	Outstanding Loan Obligations (EOY)	250	54	181	227		
Economic Development Administration							
452	Economic Development Administration Programs						
	Budget Authority	378	192	182	0	-100.00	-100.00
	Outlays	502	205	218	179	-17.89	-20.90
Appalachian Regional Commission							
452	Appalachian Regional Commission Programs						
	Budget Authority	299	105	107	0	-100.00	-100.00
	Outlays	337	148	129	113	-12.40	-15.61
Small Business Administration							
376	Business Loan and Investment Fund Program						
	Budget Authority	609	378	236	130 ³	-44.92	-46.93
	Obligations	NA	1,050	933	797 ⁴	-14.58	-17.70
NA	Guaranteed Loan Commitment Levels	3,061	2,800	3,154	3,028	-3.99	-7.51
Farmers Home Administration							
452	Rural Development Insurance Fund						
	Budget Authority	NA	827	3,903	1,607	-58.83	-60.33
	Outlays	NA	-210	777	491 ⁵	-36.81	-39.12
452	Loan Obligation Levels	NA	541	522	396		

BUDGET SUMMARY
(in millions of dollars)

Function		1981 Actual	1987 Actual	1988 Estimated	1989 Request	Percent Change 1988-1989	
						Nominal	Adjusted for Inflation
604	Rural Housing⁶						
	Budget Authority	NA	2.434	6.339	3.864	-39.04	-41.28
	Outlays	NA	798	3.247	1.322	-59.29	-60.78
604	Public Housing (including CIAP)						
	Admin. Commitments	7.332	2.280	2.382	1.131 ⁷	-52.52	-54.26
	Outlays	NA	773	1.111	1.975	77.77	71.26
604	Operating Subsidies for Public Housing⁸						
	Budget Authority	1.071	1.350	1.450	1.518	4.69	0.86
	Outlays	929	1.388	1.486	1.515	1.95	-1.78
604	Assisted Housing⁸						
	Admin. Commitments	24.839	5.549	6.034	5.756 ⁹	-4.61	-8.10
	Outlays	5.747	8.125	8.682	9.275	6.83	2.92
371	Elderly/Handicapped¹⁰						
	Budget Authority	797	533	584	289 ¹¹	-50.51	-52.33
	Outlays	817	404	545	530	-2.75	-6.31
451	Housing Development Grants						
	Budget Authority	NA ¹²	105	18 ¹³	0	-100.00	-100.00
	Outlays	NA ¹²	66	144	109	-24.31	-27.08
451	Rental Rehabilitation						
	Budget Authority	NA ¹²	209	200	150 ¹⁴	-25.00	-27.75
	Outlays	NA ¹²	99	180	238	32.22	27.38

* Based on agency detailed budget documents.

¹ An additional \$145 million is proposed for transfer from the Section 312 loan fund, which would then be terminated.

² Includes a rescission of \$50 million of recaptured funds.

³ Excludes \$14 million proposed for later transmittal under proposed legislation and \$9 million for credit reform.

⁴ Includes \$398 million in offsetting receipts from sale of assets.

⁵ Excludes a reduction of \$67 million proposed for later transmittal under proposed legislation and \$11 million for credit reform.

⁶ Includes programs under the Rural Housing Insurance Fund; in fiscal 1989 this includes proposed rural housing voucher program.

⁷ Includes a rescission of \$122 million of recaptured pipeline deobligations.

⁸ Gross reservations, lower income housing assistance (Section 8).

⁹ Includes a rescission of \$181.5 million of recaptured pipeline deobligations.

¹⁰ Section 202 building and management loans; unit subsidies under Section 8 are included in Assisted Housing figures above.

¹¹ Excludes a reduction of \$289 million in credit reform.

¹² Program did not exist in 1981.

¹³ Includes \$15 million in reappropriations and recaptures.

¹⁴ Does not include \$20 million in recaptures from the Assisted Housing account, which would provide a total program of \$170 million.

A. Community Development Block Grants (CDBG)

Block grants are a major resource for cities and counties, funding a wide range of physical, economic, and social development activities. The budget proposes a fiscal 1989 CDBG funding level of \$2.625 billion. This includes an "estimated" appropriation of \$2.48 billion and the transfer of an estimated \$145 million in the unobligated balance from HUD's Section 312 rehabilitation loan fund (which would be terminated). The amount of new budget authority ultimately allowed under this plan would be the difference between the amount of Section 312 funds available for transfer and the specified CDBG program target level.

By law, 70 percent of available CDBG monies are distributed to entitlement jurisdictions--generally those with populations over 50,000--as direct formula grants. In fiscal 1988, a record 827 entitlement cities and urban counties will share nearly \$2 billion. States receive the remaining 30 percent as formula-based allocations with which they operate discretionary programs for their small communities. These state small-city CDBG programs received \$845 million in fiscal 1988. The administration's budget request would earmark \$1.8 billion for large cities and almost \$773 million for small communities in fiscal 1989. About \$50 million would be reserved for the HUD Secretary's CDBG Discretionary Fund. (See the table at the end of this section for CDBG allocations for fiscal 1987 by state.)

In fiscal 1986, entitlement cities earmarked 21 percent of their CDBG resources (more than \$500 million) for infrastructure and public works projects. Economic development activities, such as loans and grants to businesses and related physical support, claimed 13 percent of the cities' funds (about \$350 million). Housing-related activities absorbed 35 percent, with single-family housing rehabilitation accounting for nearly two-thirds of that amount.

States awarded 34 percent of their grants in fiscal 1986 to very small communities with populations under 2,500. Jurisdictions larger than 10,000 received 13 percent. Small-cities CDBG resources funded 2,562 projects that year. Nearly 50 percent of the state awards went to public works projects; generally, the smaller the recipient community, the more likely it was to fund water and sewer improvements. About 14 percent financed other economic development activities. More than 30 percent were housing-related.

The proposed \$2.625 billion for CDBG would drop the program to its lowest funding level since fiscal 1976. The reduced purchasing power would have a marked effect on economic and community development programs in many communities. For example, in fiscal 1981, 669 entitlement communities split \$2.67 billion in CDBG resources; in fiscal 1989, at least 827 communities would share \$1.8 billion. In other words, 20 percent more jurisdictions must work with one-third less funds.

In late December 1987, Congress passed a long-stalled housing and community development bill. That legislation included several changes in the CDBG program, notably:

- increasing from 51 to 60 percent the level of CDBG program funds that recipients must spend to benefit low- and moderate-income persons;

- permitting CDBG funds to be used for new housing construction; and
- prohibiting the use of CDBG (or UDAG) funds in projects that would displace low- and moderate-income tenants, unless replacement housing and relocation costs are provided.

The Northeast and Midwest, which have 43 percent of the nation's population, received 50 percent of all CDBG funds in fiscal 1987--40 percent of the state funds and 55 percent of the entitlement resources. The proposed 9 percent reduction in total CDBG resources for fiscal 1989 would hurt many cities and states in the region. New York jurisdictions could lose \$28 million; Illinois, \$14 million; Michigan, \$11 million; and Pennsylvania, \$17 million.

Section 108 Loan Guarantees. Section 108 provides a vehicle for communities to leverage CDBG resources for larger projects not easily accommodated with annual allocations. The administration's request proposes to end the Section 108 program in fiscal 1989. Congress enacted a \$144 million guarantee limit as part of the fiscal 1988 HUD appropriation, down slightly from the \$150 million permitted in fiscal 1987. Originally designed to promote large-scale physical development projects, the recently enacted Housing Act broadened the program, allowing HUD to guarantee entitlement communities' loan obligations for any economic development activity permitted under CDBG rules.

More than half of all Section 108 projects approved to date are located in central business districts, typically as a complementary part of a larger project. Most Section 108 loan guarantees (84 percent) involve site acquisition, clearance, or rehabilitation activities. Ending the Section 108 program would eliminate a proven tool for economic development financing. Its loss would affect the region negatively and disproportionately. Since the beginning of the program, communities in the Northeast and Midwest have used 62 percent of the \$865 million in guarantees issued. Moreover, this proposal comes on the heels of a congressional reauthorization that broadened Section 108 eligibility criteria in a way that could increase program flexibility and usefulness.

Usually, Section 108-backed loans are repaid within six years, typically by private project participants, although future CDBG funds are pledged as security. The Budget Reconciliation Act of 1985 shifted financing responsibility from the Federal Financing Bank to private sources, effective for all loan guarantees committed after July 1, 1986. Currently, a consortium of three investment houses participates in the Section 108 public-private partnership.

B. Urban Development Action Grants (UDAG)

Action grants are made to attract private investment to distressed urban areas and small cities. Although a HUD study acknowledged that the UDAG program "has had substantial success" as an economic development stimulus in numerous communities, the president again proposes to end it in fiscal 1989. The proposal also calls for a rescission of \$50 million in unobligated and unawarded funds that HUD anticipates recapturing in fiscal 1989. The program has suffered big cuts in recent years. Congress appropriated \$216 million for fiscal 1988, about 51 percent less than the \$440 million provided in fiscal

1985, and a fraction of the \$675 million available in fiscal 1981. The administration's estimate of \$366 million in outlays for fiscal 1989 simply would amount to the spendout of funds for projects approved in prior years.

If implemented, these changes would have a negative impact on economic revitalization efforts in many communities. Cities in the Northeast and Midwest historically have received two-thirds of all UDAG awards; elimination of the program would be felt keenly. Since 1978, the program has generated more than \$17.8 billion in private investment and is credited with creating 350,000 jobs in the region and saving an additional 98,000. In addition, UDAGs have provided nearly \$600 million in assistance to the region's smaller distressed cities. (See the UDAG Investment and Job Creation and UDAG Awards to Large and Small Cities tables at the end of this section.)

The administration fundamentally opposes the use of federal funds to help states and local governments influence the location choices of private businesses. Congress, however, has maintained the UDAG program because of its determination to promote the revival of older distressed urban and rural communities. Congress has decided that these areas need additional help to make them competitive so that they can share in the benefits of national economic growth.

The UDAG program provides the financial incentives necessary to encourage private businesses to undertake commercial, industrial, and neighborhood development projects in economically distressed communities. UDAGs have promoted workable public-private partnerships that have proven themselves effective in fostering revitalization and diversification activities. UDAGs have helped to ease the financial risk of development in inner cities and disadvantaged communities, and improved their attractiveness for investment. Each UDAG dollar is credited with leveraging \$6.16 in private investment.

In many cities, the impact of the initial UDAG award is multiplied for still greater community benefit. In most cases, UDAG funds are transferred to private-sector participants as low-interest loans that are ultimately repaid to the local government. A HUD study indicated that in nearly two-thirds of all recipient communities, repayments of UDAG loans are recirculated for new economic development purposes, often by capitalizing local revolving loan funds. By the end of fiscal 1986, 568 jurisdictions had received \$232 million in UDAG repayments. In fiscal 1986, 87 percent of all UDAG funds were disbursed as loans; one-third of the projects also placed the sponsoring city in some position of economic participation in net cash flow or net sales proceeds. These activities can lead to more local resources for economic development. An often overlooked benefit is the program's tax impact; UDAG assisted projects have strengthened the local tax base in many distressed communities. Nationwide, UDAG projects have provided state and local governments with almost \$625 million in property and other tax revenues in fiscal 1987.

In 1987, 187 projects were awarded \$324 million in UDAG assistance. Large cities secured 111 projects; 76 went to small communities. About 53 percent of the awards funded commercial activities, 29 percent went for industrial development, and the remaining 18 percent funded neighborhood projects. These 187 awards attracted \$2.1 billion in private resources, and were tied to \$184 million in other federal, state, and local assistance. Thus, the UDAG program was responsible for channeling more than \$2.6 billion in investment to the

nation's distressed communities. Moreover, the 1987 results were achieved in spite of the lowest resource level in UDAG history. By comparison, in fiscal 1983 UDAG channeled \$635 million into 459 projects, 44 percent of which went to small cities.

The UDAG program has helped nearly 2,900 development projects in 1,186 cities since 1978. Nationwide, \$4.28 billion in program funding is credited with generating:

- more than 556,000 permanent new jobs, 130,000 retained jobs, and 465,000 construction jobs;
- nearly \$26.8 billion in private investment;
- almost \$625 million annually in local tax revenues, with two-thirds coming from property tax levies; and
- nearly 108,000 units of rehabilitated or newly constructed housing, 38 percent of it for low-income persons.

A stronger economy in the last five years has contributed to a large increase in the number of high-quality proposals submitted to HUD for consideration. Correspondingly, the level of available UDAG resources has declined more than 51 percent since fiscal 1985. Since December 1983, the number of UDAG proposals satisfying all eligibility and funding requirements--so-called "fundable projects"--has exceeded appropriated program monies. For instance, in the last large-cities funding cycle of fiscal 1987, 198 applications seeking \$520 million were considered; 55 projects were awarded \$129.7 million. The last small-cities cycle saw 148 applicants requesting \$223 million; 19 projects shared \$24 million.

The impactation/distress evaluation system that HUD used to rank proposals for funding has drawn wide criticism; it has skewed funding distribution and frustrated efforts in less-distressed but still eligible cities, which became relatively less competitive. Congress addressed the problems raised by this system in the recently enacted housing and community development program reauthorization legislation. During 1988, HUD must adopt a "two-pot" UDAG award process, similar to the one suggested by leaders from the Northeast-Midwest region in 1985, in which:

- 65 percent of available UDAG funds will be awarded on the basis of economic impactation, distress, and project merit (the current system); and
- 35 percent on the basis of project merit criteria only (which are broadened to include private investment leveraging ratio, permanent jobs created, and job training provided).

The new evaluation process will also give more consideration to projects in communities that have not received a UDAG award during the preceding one or two years.

This new system probably will lower the Northeast-Midwest region's share of UDAG awards below the level enjoyed during the last three years. In most states in the region, though, the proportion of awards would not drop more than

1 percent below their average participation rate from 1978 to 1983; several states may garner greater amounts than in the past. These small reductions will be a worthwhile trade-off to maintain the political support the program needs to remain a viable economic development tool.

Since the program began in 1978, the Northeast and Midwest have received 68 percent of all UDAG funds awarded, attracted 67 percent of the related private investment, and received about 65 percent of the related job benefits. Regional leaders believe that UDAG has been a key contributor to promoting economic development in large cities and small communities throughout the Northeast and Midwest, and that loss of the program would undermine many of the public-private partnerships which have taken root across the region.

C. Economic Development Administration (EDA)

EDA helps fund public works construction and economic development planning activities. It also helps states and communities combat sudden or long-term economic deterioration. The administration again proposes to terminate EDA, maintaining as it has since 1981 that EDA programs are obsolete, "distort market incentives," and only "serve narrow local and regional political interests at the public's expense." It seeks no new grant or loan guarantee authority for fiscal 1989.

Strong congressional support for EDA's assistance to local areas has allowed the agency to continue operations with a small program budget. Congress provided \$182 million for fiscal 1988, a figure far below the 1981 level of \$440 million.

EDA supports programs to create jobs and spur economic growth and diversification in distressed areas. Moreover, EDA funding encourages investment of additional private funding in economic development activities; for example, in fiscal 1987, \$122.4 million in public works grants attracted \$95 million more project dollars. EDA activities are concentrated in three major programs:

- public works grants (Title I) for construction or renovation of infrastructure and other public facilities;
- planning grants (Title III) to states, cities, small communities, and rural districts to develop and institutionalize economic development planning capacity; and
- economic adjustment assistance (Title IX) to help communities counter "sudden and severe" economic upheavals, such as plant closings, as well as reverse the effects of long-term deterioration in the local economic base.

Other EDA programs fund research and technical assistance activities, and special projects. The table below shows how EDA funds were spent in the past, and fiscal 1988 appropriated program levels.

EDA Programs
(in millions of dollars)

Program	1981	1987	1988
Public Works/Development Grants	257.9	122.4	119.7
Planning Grants	23.9	24.0	23.0
Economic Adjustment Assistance	12.6	26.0	24.7
Technical Assistance	26.4	7.0	6.7
Research and Evaluation	2.7	1.0	1.2
Direct Loans	54.1	0	0
Mandated Special Projects	NA	9.5	6.8

The Northeast-Midwest region's share of EDA allocations in the three major programs rebounded in fiscal 1987 to nearly 38 percent, after dropping to 25 percent in fiscal 1986. In fiscal 1981, the region garnered 52 percent of all EDA awards. (See the table on EDA program spending for fiscal 1987 at the end of this section.)

In a 1981 evaluation, the House Subcommittee on Economic Development learned that the \$4.7 billion invested in EDA from 1965 to 1980 had created or saved 1.4 million jobs in the private sector, at a cost of \$3,357 per job. EDA funds were credited with leveraging \$9 billion in private investment. These jobs and investments return about \$6.5 billion in taxes and other revenues to state, local, and federal coffers annually.

Considerable bipartisan support for EDA exists in the House of Representatives. In August 1987, the House passed legislation by a wide margin (330 to 89) to restructure EDA and make it a more effective partner in local economic development. That bill, the National Development Investment Act, would provide \$425 million in annual grant authority to assist economic development facility projects. The federal share of any project would be limited to 50 percent of its total cost, and major private-sector involvement would be required. In addition, \$75 million annually would be provided for economic development planning and technical assistance, which would help small cities and rural communities especially. The bill also would establish tighter targeting provisions for EDA activities, addressing a key criticism of current programs. The Senate has not yet considered the bill.

The proposed expansion and restructuring of these programs would increase EDA's assistance to the region. The bill channels funds more carefully to areas of need and puts special emphasis on infrastructure repair and rehabilitation. The bill also promotes economic adjustment aid, local access to private capital, and employee purchases of plants--measures that could help protect communities from the sudden losses that accompany plant shutdowns.

While the economic climate in much of the Northeast and Midwest has improved during the past several years, parts of the region continue to endure high unemployment and sluggish economic growth. Smaller and mid-sized communities in the Mid-Atlantic and Midwest states in particular still suffer from the transformation and loss of heavy industry; others are buffeted by the region's slumping agricultural sector and related business and bank failures.

Few of the communities facing these situations have the resources necessary to deal with such severe economic dislocations. Public officials throughout the region, therefore, have a keen interest in preserving effective federal involvement in economic development through EDA programs.

D. Small Business Administration (SBA)

SBA provides emerging and established small businesses with financial assistance and management or technical counseling to enhance their chances of survival and growth. The president has outlined an overall fiscal 1989 SBA business development program level of \$3.03 billion, 4 percent less than the congressionally authorized level for fiscal 1988. All SBA financial assistance proposed for fiscal 1989 would be in the form of loan guarantees, rather than direct financial aid. The budget proposes to end all direct loan programs; in fiscal 1988, \$85 million (or 2.7 percent) is available for direct lending, all to targeted constituencies such as minorities and the economically disadvantaged. For the first time, the administration proposes to end MESBIC funding, which provides direct venture capital help to minority enterprises.

The Business Loan and Investment Fund (BLIF), authorized at \$236 million for fiscal 1988, is the pot of money that provides SBA direct loans and covers defaults on guaranteed loans for general business creation and expansion, energy improvements, and businesses operated by handicapped persons and veterans. The administration seeks \$130 million for fiscal 1989, which would cover the following program commitments.

SBA Business Loan and Investment Fund
(commitment levels in millions of dollars)

Program	1981 Actual	1987 Actual	1988 Approp.	1989 Request
General Business Loans (7a)	\$3,009.0	\$2,231.6	\$2,421.0	\$2,392.0
Direct	205.1	0	0	0
Guaranteed	2,804.8	2,231.6	2,421.0	2,392.0
Development Co. Loans (503/504)	72.6	392.5	450.0	450.0
Direct	6.0	0	0	0
Guaranteed	66.6	392.5	450.0	450.0
Investment Companies	201.2	190.1	269.0	186.0
Direct (MESBIC)	41.2	38.7	36.0	0
Guaranteed (SBIC)	160.0	154.4	233.0	186.0
Handicapped Loans	26.7	9.8	18.0	0
Direct	25.0	9.5	13.0	0
Guaranteed	1.7	0.3	5.0	0
Economic Opportunity Loans	69.4	42.5	59.0	0
Direct	49.0	18.6	19.0	0
Guaranteed	20.4	23.9	40.0	0

Energy Loans	14.0	0.4	5.0	0
Direct	6.7	0	0	0
Guaranteed	7.3	0.4	5.0	0
Veterans	0	19.0	17.0	0
Direct	0	19.0	17.0	0
Guaranteed	0	0	0	0
Total Business Loans	3,393.8	2,885.9	3,239.0	3,028.0
Direct	333.0	85.8	85.0	0
Guaranteed	3,060.8	2,800.1	3,154.0	3,028.0

Through its guarantee programs, SBA agrees to purchase the guaranteed portion of the loan from the lender in the event of a default. The largest of these programs, the Section 7(a) general business loan program, has an authorized guarantee limit of \$2.42 billion for fiscal 1988, about 1.2 percent more than the administration requests for fiscal 1989. The Section 503/504 development company programs, authorized at \$450 million this year, help SBA-certified development companies provide small businesses with long-term, fixed-asset financing. The administration seeks the same guarantee level for next fiscal year.

Several small guarantee programs (handicapped, economic opportunity, and energy) have a combined fiscal 1988 loan limit of \$50 million. All are proposed for elimination. The agency would consolidate all guaranteed credit offerings into three major programs: general business assistance (7[a]); economic development assistance (Section 503/504); and investment assistance (SBIC). The SBIC program, authorized at \$233 million in fiscal 1988, provides venture capital assistance to SBA-certified companies that make investments in emerging growth firms; the administration proposes to cut SBIC authority by 20 percent, to \$186 million, for fiscal 1989. (For state-by-state funding distribution figures for all these programs, see the table at the end of this section.)

Combined fiscal 1988 capital expenses for BLIF programs are estimated at \$569 million, down from \$674 million in fiscal 1987. The new budget projects \$474 million in spending in fiscal 1989. This 17 percent reduction from 1988 to 1989 is feasible, according to the administration, because of more diligent loan servicing and underwriting and several suggested fee-generation and guarantee-level changes, including:

- increasing guarantee fees by 1.5 percent on Section 504 development company loans;
- increasing guarantee fees by 1 percent on SBIC assistance; and
- reducing the 90-percent SBA guarantee on loans over \$75,000 to 75 percent, phased in over the next five years (through fiscal 1993).

The budget also anticipates raising considerable revenue by selling business and development company loan assets in 1988 and 1989, according to the following schedule.

SBA Asset Sales Targets
(in millions of dollars)

Fiscal Year	Loan Sale	Revenues	Return (percent)
Business Loans			
1989	200	140	70
1990	200	140	70
Section 503 Development Company Loans			
1989	330	249	75
1990	515	385	75

The budget proposal reflects the estimated grant-equivalent subsidy impact of the administration's credit-reform proposal on SBA programs. It requests \$327.5 million for business loan guarantees to pay the proposed Federal Credit Revolving Fund for loan-guarantee subsidies.

In addition, the budget also proposes to begin a five-year (through fiscal 1993) phase-out of federal funding for the popular Small Business Development Center (SBDC) program, which provides a variety of technical and management services to small business owners. Nationally in fiscal 1986, SBDCs counseled more than 72,000 entrepreneurs, and provided some sort of training to nearly 260,000 persons. Many SBDCs are located on college campuses, and leverage additional state, local, and private support. The administration requests \$26 million in SBDC funding in fiscal 1989 (in fiscal 1987, SBA let \$32.7 million in SBDC contracts), and seeks to reduce their statutory funding cap to \$45 million (from \$65 million). Consistent with its call for increased user fees, the fiscal 1989 budget proposes to establish counseling and training fees and begin or raise publication charges.

The administration also would reorganize assistance programs for minority businesses by transferring the Department of Commerce's Minority Business Development Agency (MBDA) to SBA and consolidating it with that agency's minority small business programs. The MBDA transfer would include \$24 million in grant authority for Minority Business Development Centers. By comparison, MBDA is authorized to operate \$39.7 in enterprise development and advocacy programs in fiscal 1988. The budget also calls for eliminating Section 7(j) contracts and grants, charging interest on Section 8(a) contract advances, and imposing new user fees on various minority program services.

In fiscal 1987, only 18 percent of all SBA direct loan program funds were channeled into the Northeast-Midwest region (almost half went to California). More importantly, SBA 7(a) business loan guarantee assistance pumped \$740 million into the region's small enterprises (although this was \$154 million less than the fiscal 1986 level). The region also received 43 percent of the total Section 503/504 development company guarantees, many of which promote new economic activity in small cities and rural areas. In addition, SBA-sponsored

investment companies directed \$95 million in venture capital to the Northeast-Midwest region, 57 percent of MESBIC and SBIC resources. In total, the region was the site of nearly \$1.9 billion in SBA activity in 1987, 35 percent of the national total.

Small businesses are a crucial source of new jobs and play a particularly important role in the economy of the Northeast and Midwest. The older industrial states lost over 1.5 million manufacturing jobs between 1979 and 1984. Small and new businesses have replaced many of these lost jobs. Small business incubators, centers for excellence, and similar entities use SBA resources and other public funds to promote small enterprise start-ups and nurture their growth. Several studies have shown that small businesses generate more jobs in the Northeast and Midwest than in any other part of the country. The need to preserve programs that help these enterprises is clear.

E. HUD-Assisted Housing

The 1949 Housing Act declared a national goal of a decent home and suitable living environment for all citizens. The Department of Housing and Urban Development has pursued this objective in a variety of ways: direct unit construction, development incentives, rehabilitation help, rent subsidies, and, most recently, housing vouchers. The president requests \$9.41 billion in new budget authority for HUD-assisted housing programs in fiscal 1989. This compares to \$11.66 billion in new authority made available by Congress for fiscal 1988, and \$10.73 billion authorized in fiscal 1987. This proposed 19-percent cut from prior-year levels is the smallest HUD housing cut sought during the Reagan era.

The budget request assumes pipeline deobligations (i.e., authority recaptures) of \$429.5 million in fiscal 1988, and another \$303.5 million in 1989. These deobligations represent 1,300 units of public housing and 6,000 units of Section 8 approvals from prior years that now are not deemed "feasible." The administration proposes to rescind the deobligated balances in these two housing programs.

As the figures in the table below illustrate, the administration does not propose the sweeping housing-program cuts requested a few years ago (when it sought no new authority whatsoever), although HUD continues to seek significant reductions in "bricks and mortar" housing programs such as public housing construction and modernization.

Annual Contributions, Selected HUD Assisted Housing Programs
(in millions of dollars)

Program	1987 Actual		1988 Appropriated		1989 Request	
	Units	B/A*	Units	B/A*	Units	B/A*
Public Housing						
Public Housing	6,130	\$499	6,147	\$414	0	0
Indian Housing	3,671	245	2,003	148	1,000	72
Modernization	--	1,438	--	1,728	--	1,000

Section 8						
Housing vouchers	48,362	1,190	54,936	1,311	111,116	3,032
Section 202	12,550	1,586	11,373	1,712	7,000	1,098
Existing regular	9,497	786	10,058	854	0	0
Moderate rehab.	7,230	724	5,008	532	0	0
Rental Rehabilitation	18,138	200	30,000	200	N/A	150
HODAG ¹	4,171	105	880	18	0	0

¹Program level, authority plus recaptures.

* Budget authority.

In the past seven years, the Reagan administration has reshaped federal housing policy dramatically. In contrast to the \$24.8 billion in new authority for assisted housing in fiscal 1981, the fiscal 1989 budget requests only \$9.4 billion--a 62 percent reduction. Federally oriented "deep subsidy" programs have given way to less expensive, but shorter-duration commitments such as housing vouchers that almost exclusively aid the poor in finding private-sector housing, rather than finance or subsidize the construction of new units.

Section 8 and Housing Vouchers. The Housing Assistance Payments Program, commonly known as Section 8, provides a subsidy that covers the costs of housing assistance, including debt service and expenses attributable to the construction and operation of rental housing for lower-income families. In essence, Section 8 makes up the difference between the actual costs of housing rentals and what lower-income families can afford to pay. Subsidy payments are equal to the difference between the actual rent (which is based on the fair market rent of comparable units in the area) and 30 percent of the family income. As originally crafted in 1974, Section 8 assistance could be used to subsidize new unit construction, moderate and substantial rehabilitation, and the maintenance of existing rental stock.

Section 8 has been very important to the Northeast and Midwest. Some 48 percent of all Section 8 assistance has gone to the region; in fact, 52 percent of newly constructed units, and 72 percent of those receiving substantial rehabilitation are found in these 18 states.

The administration proposed and Congress launched the housing voucher program as a demonstration component of Section 8 in 1983; vouchers were made permanent in the Housing and Community Development Act of 1987. Vouchers add a new dimension to housing assistance. In essence, they link families with resources rather than units. The voucher subsidy is based on the difference between an established area market payment standard and a fixed percentage of family income, currently 30 percent for new participants. There is no limit on the rent tenants may pay. Families in the Northeast and Midwest have received 45 percent of the nearly 128,000 housing vouchers reserved through the end of fiscal 1987. (For state-by-state figures on vouchers and major Section 8 program use levels, see the table at the end of this section.)

The president seeks \$4.62 billion in budget authority to reserve 123,787 Section 8 units in fiscal 1989, 30,971 more than the number authorized for reservation in fiscal 1988. This number includes 107,000 incremental (new to

the inventory) units. The balance of 16,787 units covers tenants already in subsidized housing who must be relocated because of Section 8 opt-outs, demolitions, prepaid units, and property disposition. More than half of these tenants would be given housing vouchers rather than placed in new units. Vouchers, in fact, comprise more than 111,000 of the total reservations (90 percent) and \$3.03 billion in budget authority.

The fiscal 1989 Section 8 budget proposal includes \$953 million in authority to cover 7,000 new housing units for elderly and handicapped persons; this is 38 percent less than the \$1.57 billion provided for 11,373 units in fiscal 1988. These would be built under the Section 202 program, for which HUD also seeks a \$350 million loan limit. Applications under the two programs are processed simultaneously.

The budget request also seeks \$1.2 billion for Section 8 existing housing, project reserves, and other program components. The agency proposes to rescind \$182 million in prior-year subsidies (mostly for new construction and rehabilitation) that no longer seem feasible. The total Section 8 budget request for fiscal 1989 is \$5.76 billion.

Public Housing. Public housing is the oldest federal housing program, designed to provide decent, safe, and sanitary housing to low-income families. Although the program is administered by HUD, actual operations are carried out by more than 2,800 public housing authorities. Some 52.5 percent of the 1.2 million public housing units are located in the Northeast and Midwest. Public housing accounts for over 10 percent of all housing and provides shelter for over half the poor in several cities in the region. (See the table on public housing programs at the end of this section.)

In fiscal 1981, Congress authorized approximately 30,000 reservations for new public housing unit construction. The administration proposes to reduce available public housing resources considerably. It requests no fiscal 1989 funds for HUD public housing development; in fiscal 1988, \$414 million was reserved for the development or reconstruction of 6,147 units. The budget asks for \$72 million in authority for 1,000 new units of Indian housing, half of the fiscal 1988 level. The proposal also seeks to rescind \$122 million in prior-year obligations for public housing.

Federal housing subsidies originally were designed to fund the long-term debt of public housing authorities, while rent collections were intended to meet the operating costs. However, rents have failed to keep pace with expenses. Legislation in the early 1970s limited allowable rents to 25 percent of tenant income; this limit was raised to 30 percent in 1981. Public housing operating subsidies thus have been used to bridge the gap between costs and available rental income.

Operating subsidies increased steadily in the 1980s, rising to \$1.415 billion in fiscal 1987 because of increasing utility, labor, and maintenance costs. Even at that level, many public housing authorities--particularly those in the urban areas of the Northeast and Midwest--did not have enough funds to tend to their properties, many of which are now over 30 years old. Authorities now rely on the operating subsidy to meet almost half their day-to-day expenses. These are calculated on the basis of HUD's Performance Funding System (PFS) operations formula. More than 65 percent of the operating subsidies support housing authority projects within the Northeast-Midwest

region; two-thirds of these are located in the states of New York, Pennsylvania, Michigan, and Illinois. The administration seeks \$1.518 billion in new authority for operating subsidies for fiscal 1989, about the same level as total fiscal 1988 resources.

Over the past few years, Congress has taken a number of steps to promote the long-term viability of the public housing stock, which some experts estimate could cost more than \$85 billion to replace, by appropriating funds for rehabilitation and modernization activities. These resources are channeled through the Comprehensive Improvement Assistance Program (CIAP). Congress has provided over \$11 billion in CIAP budget authority since 1981 to improve the physical condition of public housing.

Slightly more than \$699 million was spent on modernization projects in fiscal 1986 to improve nearly 290,000 units. Patterns of program spending reflect the age of public housing stock in the Northeast and Midwest; nearly 62 percent was targeted to the region. (In fiscal 1985, the figure was 58 percent.)

Congress provided \$1.728 billion for fiscal 1988. The president proposes to reduce available CIAP funds by 41 percent, to \$1 billion, in fiscal 1989. These levels are far below real improvement needs; a congressionally mandated study indicated that \$20 to \$25 billion would be needed to bring the nation's public housing to a decent condition. Adequate modernization funding is especially critical to the region's public housing authorities, which oversee much of the nation's oldest and least energy-efficient public housing stock. New CIAP administrative provisions, part of the recent housing legislation, should provide housing authorities with greater flexibility in planning modernization activities.

Overall, the Northeast and Midwest have received the largest share of public housing assistance over the years. This housing stock would be costly to replace. Failure to provide sufficient operating funds and modernization programs jeopardizes the government's previous investment. The region's public housing authorities rely heavily on this assistance and have few alternatives to cover costs. Any decrease in funding for these programs will have enormous consequences.

Rental Rehabilitation and HoDAG. The 1983 Housing and Urban-Rural Recovery Act launched two housing programs, the Rental Rehabilitation Grant Program and the Housing Development Grant Program, designed eventually to replace Section 8 new construction and substantial rehabilitation. Both promised to improve low- and moderate-income rental housing opportunities in the region. (See program tables at the end of this section.)

The Rental Rehabilitation Grant Program is designed to increase the supply of standard affordable housing by awarding grants for rehabilitation of existing rental properties. Formula grants to states and communities are matched with either public or private funds. Grant recipients often give Section 8 certificates or vouchers to tenants who cannot afford the rents in the renovated units. The program is a small but effective tool for upgrading the region's older housing. From its first awards through 1987, it has improved nearly 42,000 units, half of them in the Northeast-Midwest. In fact, the region has received 51 percent of all rental rehabilitation resources.

More than 90 percent of the completed units are occupied by low- and moderate-income persons.

The president proposes to reduce rental rehabilitation grants in fiscal 1989. HUD would receive an appropriation of \$150 million, which it would combine with \$20 million in recaptured prior-year funds for a \$170 million program level. The fiscal 1988 authorization level is \$200 million; total program resources this year will total \$223 million. The administration also proposes to target funds to localities that do not have rent controls.

The Housing Development Grant Program, also known as HoDAG, was patterned after the successful UDAG program. It provides funds to states and local governments on a competitive basis for use in attracting private investment in rental housing projects. HoDAG was designed to spur new construction in areas experiencing severe shortages of rental housing. From 1984 to 1987, some \$397 million in HoDAG assistance helped add nearly 24,000 units to the nation's housing inventory, about one-quarter for low-income persons. Nearly 62 percent of all HoDAG resources have gone toward construction of units in the Northeast and Midwest.

In the recently enacted Housing and Community Development Act, Congress cancelled the HoDAG program as of the end of fiscal 1989. The administration seeks no new resources for the program in fiscal 1989. Fiscal 1988 funding totals \$18.4 million, down sharply from \$100 million in fiscal 1987, largely from recaptured authority of prior years.

F. Rural Economic Development and Housing

An adequate federal response to rural and small-city economic development and housing problems is important to the Northeast and Midwest, where 25 million people live in nonmetropolitan areas. In fact, New York, Pennsylvania, Ohio, and Michigan have more nonmetropolitan residents than all but two western and southern states.

Economic downturns have buffeted small cities during this decade. A deep recession during the early 1980s triggered plant shutdowns throughout the Northeast and Midwest. While the ongoing shift of industrial production has affected urban and rural areas alike, its impact has been greatest on the nation's 678 nonmetropolitan counties dependent solely on manufacturing. Approximately one-third of these counties are in the Northeast. Rural communities have proven especially vulnerable to the rapid shifts in technology accompanying industrial restructuring in this decade. Similarly, the recent economic crisis in many of the nation's 702 farm-dependent counties has caused soaring unemployment among farmers and workers in farm-related sectors. During 1986, more than 1,000 rural counties had annual average unemployment rates of nine percent or higher. Half of the farm-dependent counties are located in the Midwest.

Economic recovery in the region's small communities has been uneven. The continuing farm crisis is decimating large parts of the farm belt. Many communities there are as heavily dependent on agriculture and related businesses as smaller industrial towns are on steel and ancillary industries. These communities need federal and state economic development assistance to

help them begin practical community redevelopment programs that create new jobs and attract new investment.

Small communities must stabilize their economies and promote recovery at a time when their own tax revenues are falling. They need help to improve employment, housing, education, transportation, and social services. In the past, the federal government has provided a good deal of direct community development and housing assistance to small town and rural America through five agencies:

- (1) the Farmers Home Administration, which offers community facility, business and industrial loans and guarantees, waste and water disposal grants and guarantees, and rural housing programs;
- (2) the Economic Development Administration, which makes public works, planning, and economic adjustment grants;
- (3) the Department of Housing and Urban Development, which distributes formula Community Development Block Grants and competitive, targeted Urban Development Action Grants for commercial and industrial development in many small communities;
- (4) the Department of Transportation, which offers highway construction and maintenance funds and mass transit support to smaller, non-urban jurisdictions; and
- (5) the Appalachian Regional Commission, which provides transportation and economic development assistance to distressed counties and towns in Appalachia.

All of these assistance programs have borne large cuts since fiscal 1980, and each is slated for further reduction or outright elimination in the administration's fiscal 1989 budget submission. The president proposes to end all EDA and Appalachian Regional Commission (ARC) programs, slash rural housing assistance resources by 73 percent, and eliminate the UDAG program completely. The loss of so many infrastructure and development programs would put even greater pressure on the CDBG program, the only one of substantial size remaining in the budget proposal. However, the administration also seeks to cut the small-cities portion of CDBG by \$72 million from fiscal 1988 levels to \$773 in fiscal 1989, the lowest level this decade. In contrast, states received \$1.04 billion to distribute to their small cities in fiscal 1985.

These federal resources have helped small communities surmount obstacles they encounter continually in the development process. Many rural jurisdictions have deteriorating tax bases and often are unable to provide residents with adequate transportation, housing rehabilitation help, waste and sewer facilities, or water services. All of these elements are important in spurring economic development, and weigh heavily in business location, retention, and expansion decisions. Some form of federal investment or help is necessary for economic development to occur in rural areas. Many small communities simply do not have the fiscal capacity to finance and maintain the necessary capital plant and professional technical expertise, or have the size and diversity of resources to underwrite development projects. Now they face further curtailing of key federal programs that have provided the base for rural economic diversification and recovery.

The administration believes that economic and community development efforts, both metropolitan and rural, should be the province of state and local governments, private investors, and capital markets. Therefore, the president's budget proposes to limit federal assistance largely to the CDBG and housing voucher programs--at a time when the farm crisis has reduced rural town and township revenues and local economic activity. Given the realities of the rural development process, however, these limitations would restrict severely the ability of small-town and rural county governments to finance the physical capacity necessary to sustain economic growth and diversification.

(1) Farmers Home Administration

Business and Community Facility Loans. Two development programs are funded through FmHA's Rural Development Insurance Fund (RDIF). Community facility loans are made to local governments and nonprofit organizations for industrial parks and essential community facilities--infrastructure as well as human-service--and may include related equipment. In fiscal 1987, FmHA provided \$96 million in insured loan guarantees to help 217 projects. The same amount has been authorized for fiscal 1988, which will guarantee an estimated 210 community facility loans. The administration proposes a \$50 million program level for fiscal 1989.

The second effort, known as the B&I program, provides guaranteed business and industrial loans to public or private organizations to improve, develop, or finance business, industry, and employment opportunities, as well as improve the economic and environmental climate in rural communities. In fiscal 1987, Congress authorized \$96 million in guarantees, which helped 67 rural development projects. Congress authorized \$96 million for fiscal 1988 to guarantee an estimated 65 loans; the administration proposes the same level for fiscal 1989. Taken together, 38 percent of these program resources are expected to be allocated to Northeast and Midwest states in fiscal 1988.

Waste and Water Disposal. FmHA also operates two water and waste-disposal programs through RDIF that have important economic development effects in specific communities. Through the first program, FmHA provides grants to public and non-profit agencies and associations for water resource development, storage, treatment, purification, and distribution in rural areas. Projects to collect, treat, and dispose of waste also are funded. Grants are targeted to the most financially needy communities to reduce user costs to reasonable levels. In fiscal 1987, FmHA distributed \$118 million in water and sewer grants. Congress authorized \$112 million for fiscal 1988. The administration seeks to reduce this program by one-third, to \$75 million, in fiscal 1989.

A second program makes insured loans to develop, replace, or upgrade water and waste-disposal systems. In fiscal 1987, 679 projects received \$330 million in insured loans. Congress authorized the same amount for fiscal 1988, which will make an estimated 660 system improvements. The administration seeks \$250 million for fiscal 1989, a 24 percent cut.

These programs have helped upgrade and improve numerous rural waste and water systems in the region; 38 percent of all waste and water disposal funds in fiscal 1989 will be earmarked to the Northeast and Midwest. (For state-by-state figures on business, community facility, and water and waste disposal spending, see the table at the end of this section. For additional

information on water and waste-disposal programs, see Water Supply and Treatment section of Section Six.)

Rural Housing. Nearly half of the nation's inadequate housing is concentrated in small communities and rural areas, although they contain only one-third of the total housing stock. FmHA currently administers three major rural housing programs through the Rural Housing Insurance Fund (RHIF):

- Section 502, single family home ownership loans for very low, low, and moderate-income persons;
- Section 515 rural multi-family rental housing loans; and
- Section 521 rural rental housing assistance.

These three programs had a combined spending level of \$2.8 billion in fiscal 1985, \$2.0 billion in fiscal 1986, and \$1.96 billion in fiscal 1987. Congress approved \$1.91 billion for fiscal 1988 to help nearly 39,000 units: \$1.11 billion for 23,150 Section 502 units; \$515 million for 15,500 Section 515 units; and \$275 million to provide tenant assistance (in conjunction with other housing programs) under Section 521. The administration's fiscal 1989 budget requests termination of these three RHIF programs.

As in past years, the administration also seeks to eliminate several small, targeted FmHA housing-assistance programs operated under RHIF, including:

- Section 516 farm labor housing grants (with a fiscal 1988 authority of \$9.5 million);
- Section 523 mutual and self-help housing (\$8 million in fiscal 1988);
- Section 504 housing-repair grants to very low-income persons (\$12.5 million) and Section 504 housing repair loans (\$11.3 million); and
- Section 533 rural housing preservation grants (\$19.1 million).

The administration proposes to institute a new rural housing voucher program in fiscal 1989 to replace all these FmHA rural-assistance payments programs. The proposed program would operate like HUD's housing voucher program. The administration seeks 21,200 vouchers for rural housing units, with an estimated \$381.6 million in budget authority. This amount would be added to the \$133 million authorized in the 1987 Housing and Community Development Act for a 7,500-voucher demonstration program for low-income families in rural areas.

(2) Economic Development Administration

Historically, more than half of all EDA funds are spent on rural development. In fiscal 1987, 70 percent of all EDA resources were channeled to small towns and rural areas. (Specific EDA programs are described in Section C above.)

During the last two decades, EDA has helped finance thousands of industrial and commercial facilities in nonmetropolitan areas all across the

country. One of the most valued services EDA has rendered in small towns is economic development planning assistance. In many places, the agency provides the only resources available for professional staffing.

The administration proposes to eliminate EDA in fiscal 1989. This would have a serious impact on the Northeast-Midwest region. For example, in fiscal 1987, EDA:

- helped Parkersburg, Wisconsin, to fund a technology and training center;
- helped 8 small Illinois communities make needed infrastructure improvements; and
- provided 16 cities in the region with capital for revolving loan funds used to counter economic dislocations.

(3) Department of Housing and Urban Development

Although metropolitan areas constitute its chief constituency, HUD administers two economic development programs that have helped rural development efforts.

Community Development Block Grants. By law, 30 percent of all CDBG-funding is reserved for small cities, defined as those with less than 50,000 population. For the most part, these funds are allocated to states on a formula basis and, in turn, are distributed by state governments according to their own criteria. All states distribute some portion of their CDBG allocation through a competitive process; typical selection criteria include project impact, leveraging ratios, and community need. The administration proposes \$773 million in fiscal 1989 budget authority for small-cities block grants. (For more information, see Section A above.)

Small cities used about 15 percent of their grants for direct economic development projects in fiscal 1986--nearly all for direct assistance to for-profit organizations. Illinois, Michigan, and Indiana led the nation, devoting more than one-third of their allocations for direct development activities. More importantly, an additional 49 percent of all state CDBG resources financed public works and infrastructure projects--streets, water, and sewer--that also support rural development activities.

Urban Development Action Grants. By law, 25 percent of all UDAG funds are reserved for distressed small cities with less than 50,000 population, that compete only with each other during three annual funding cycles. In fiscal 1988, UDAG monies earmarked for small cities came to \$54 million, the smallest amount in the ten-year history of the program. The administration proposes to eliminate the program in fiscal 1989. (For more information, see Section B above.)

Since 1978, nearly 1,300 projects in 856 cities around the country have received \$1.14 billion in UDAG assistance, 54 percent in the Northeast and Midwest. Some 45 percent of these projects were industrial in nature; 33 percent helped commercial ventures. These funds, in turn, attracted \$7.8 billion in private investment to the nation's small cities, and are credited with creating more than 168,500 permanent new jobs.

(4) Department of Transportation

The Department of Transportation funds two types of programs that help promote the economic well-being and development climate in small towns and rural areas. The first is road construction and maintenance. Most of the federal funds come from the Highway Trust Fund, and are allocated by formula to the states for spending in various programs. Although no precise urban/rural figures are available, spending on interstate highway construction, rebuilding, and rehabilitation benefits rural areas of the region directly. Most of the rural secondary highway funding (60 percent) is spent in more sparsely populated and geographically larger areas of the South and West, but the program nevertheless will pump nearly \$265 million into rural infrastructure projects in the Northeast and Midwest in fiscal 1988.

The second program is transit assistance. The administration would like to shift more funding responsibility to the local level and replace discretionary UMTA grants with new Formula Transit Grants, funded by the one-cent per gallon of the existing gas tax dedicated to mass transit. Under the administration's proposal, UMTA Section 9 and 18 assistance to nonurban and rural transportation systems would total \$67 million in fiscal 1989, slightly less than the \$69 million available in fiscal 1988. The Northeast and Midwest are slated to receive 37 percent of this year's apportionment. (For further information, see Section Eight.)

(5) Appalachian Regional Commission

Terming its activities "unnecessarily duplicative" of other federal programs, the administration again seeks to discontinue ARC highway, jobs, and investment programs. These activities serve predominantly rural areas in the 13 Appalachian states. The 1988 continuing resolution provided \$107 million in new ARC funds; with carryover monies, a total program level of \$135 is estimated.

Selected Rural Program Funding
(in millions of dollars)

	1981 Actual	1987 Actual	1988 Authorized	1989 Request
FmHA Waste and Water Grants	200	109	109	75
FmHA Waste and Water Loans	750	330	330	250
FmHA Community Facility Loans	260	96	96	50
Business and Industry Loans	741	96	96	96 ¹
FmHA Housing (3 large programs)	N/A	1,960	1,903	382 ¹
CDBG (30% small-city share)	1,108	900	864	773
UDAG (25% small-city share)	169	56	54	0
EDA (50-70% rural share)	378	180	182	0
Appalachian Regional Commission	338	101	107	0
Sec. 18 Mass Transit Grants	73	75	65	67
Secondary (rural) Highways	443	385	654	400

¹Estimated cost of vouchers to replace all FmHA housing programs.

G. Development Incentives in the Tax Code

In the past seven years, the tax code has assumed an increasingly important role in state and local economic development strategies and programs. Rehabilitation tax credits and industrial development bonds (IDBs) in particular were widely used with positive results across the region. Requirements for both were tightened in the 1986 Tax Reform Act, however. Both are increasingly difficult to use for economic development purposes. The administration does not propose any further changes in either provision.

Rehabilitation Tax Credits. Congress devised rehabilitation tax credits to discourage unnecessary demolition of sound older buildings and stem the loss or relocation of existing business and industry from older downtown commercial areas. The credits have played an important role in attracting capital to ignored and often blighted areas not ordinarily considered for investment. Renovated buildings, housing stock, as well as commercial and industrial structures, often serve as investment "magnets."

Rehabilitation tax credits were first included in the tax code in 1978, with considerable support from the Northeast-Midwest Coalitions. The Economic Recovery Tax Act (ERTA) of 1981 expanded the credit to as much as 25 percent for historic structures, and made rehabilitation and new construction more equal from a tax standpoint.

The 1986 Tax Reform Act preserved rehabilitation tax credits, but scaled them back. Rehabilitation of certified historic structures qualifies for a 20 percent credit and full-basis adjustment, rehabilitation work on structures built before 1936 qualifies for 10 percent. More importantly, rehabilitation investments were made subject to passive loss limits and other real estate restrictions adopted in that legislation. These changes have limited the viability of rehabilitation tax credits, especially for mid-sized projects in the \$500,000 to \$5 million range.

According to a recently issued National Park Service report on fiscal 1987 tax credit activity, the use of historic rehabilitation tax incentives "was dramatically affected" by the 1986 tax act. It terms the passive loss and credit provisions of that law "a major factor in reducing the number of rehabilitations" undertaken, even though they are accorded slightly more favorable tax treatment than other types of real estate investment. The 1986 tax law places an effective maximum \$7,000 tax credit per investor per year, as well as restricting the income level of those who may use tax credits and losses. (Some incentives are reduced for taxpayers with adjusted gross incomes exceeding \$100,000; all are eliminated for those with incomes greater than \$250,000.)

These changes reduce the appeal and worth of the tax credits, as judged by a decline in use in fiscal 1987: approved projects dropped 35 percent from the previous year, from 2,964 to 1,931. This was the smallest level of activity since the ERTA provisions went into effect in 1982. The amount of private rehabilitation investment also suffered a steep decline. The \$1.08-billion level in fiscal 1987 was one-third less than the \$1.67 billion invested in fiscal 1986--and only 45 percent of the \$2.42 billion invested in fiscal 1985.

This year, the National Park Service was not able to provide state-by-state data on rehabilitation tax incentive projects, investment, and

related economic development activity. In prior years, these tax credits were used widely in the Northeast and Midwest, which contain the largest stock of older buildings in the nation. Pennsylvania, New York, Massachusetts, and Ohio had the largest amount of rehabilitation activity.

The National Park Service has compiled cumulative national data on several facets of the program, as shown below. Several jurisdictions within the region have assessed the impact of rehabilitation tax credits on their economies and report impressive results: more than \$250 million in private investment in Michigan and 10,000 jobs in Detroit alone since 1981; nearly \$300 million in additional business activity and 4,000 new jobs in Baltimore during the 1982-1986 period; and 16,000 new jobs and nearly \$60 million in corporate and personal tax revenues in Illinois during the 1982-1984 period. Legislation recently introduced in the House by Rep. Barbara Kennelly (D-CT) and the Senate by Sen. John Danforth (R-MO) would restore some of the rehabilitation incentives eliminated in 1986, particularly those affecting housing rehabilitation.

Rehabilitation Tax Credits: Project Uses and Leverage

	Fiscal 1982	Fiscal 1985	Fiscal 1986	Fiscal 1987
Approved projects	1,802	3,117	2,964	1,931
Dollars invested (millions)	\$1,128	\$2,416	\$1,661	\$1,084
Project types:				
Office	360	374	385	213
Commercial	144	312	445	251
Mixed-use	360	592	563	444
Housing	811	1,777	1,304	869
[units created]	5,131	5,395	7,264	4,216
[# low/mod. units]	2,635	868	640	1,241
Tax expenditure impact ¹ (in millions)	\$540	N/A	\$900	\$495 ²

¹ Defined as "revenue loss attributable to provisions of the federal tax laws."

² The Office of Management and Budget estimates the impact to decline further to \$410 million in fiscal 1988 and \$320 million in fiscal 1989.

SOURCES: Staff calculations from National Park Service, Tax Incentives for Rehabilitating Historic Structures: Fiscal Year 1987 Analysis (Washington, D.C., December 1987), various tables; and Office of Management and Budget, Special Analyses: Budget of the United States Government, (Washington, D.C., 1983, 1984, 1987, and 1988), various tables.

Tax-Exempt Finance. The ability of the region's smaller firms to achieve their full competitive potential in national and international markets

continues to be hampered by the lack of affordable, accessible investment capital. Many financially viable, creditworthy firms are unable to find satisfactory commercial financing for reasons related to their size, sector, stage of development, or location. It has fallen to state and local governments to find ways to fill these capital gaps. Until the full force of the 1986 Tax Reform Act was felt, tax-exempt bonds were an important tool for this purpose. A 1984 CBO study noted that small-issue IDBs "account for an overwhelming portion of all state resource commitments to industrial development."

Tax-exempt private activity bonds are issued by states, local governments, and numerous quasi-public authorities and special districts. They are appealing to investors because the interest they bear is exempt from federal taxation. Issuing jurisdictions thus can provide or leverage capital at less than prevailing market cost for projects and public-private ventures sought by the community.

The 1986 Tax Reform Act made numerous changes in the treatment of tax-exempt instruments, particularly IDBs, which served to curtail their use drastically. That statute adopted tougher annual volume caps to limit the growth of tax-exempt bonds, eliminated eligibility for several types of projects, increased state and local borrowing costs (through new arbitrage and refunding restrictions), and reduced the tax advantage resulting from the interest exemption.

These restrictions were caused in part by the explosive growth of tax-exempt borrowing for projects outside the scope of traditional government activity, and the rising cost to the federal treasury in terms of foregone tax revenues; in fiscal 1989, IDBs alone will have an estimated tax expenditure impact of \$4.87 billion. The annual volume of these bonds grew from \$14.5 billion in 1975 to nearly \$162 billion in 1985. Small-issue IDBs helped feed this growth. In their heyday, IDBs were one of the most popular forms of state and local economic development finance, used to provide more affordable capital for the acquisition, construction, or improvement of privately owned businesses. In fiscal 1985, public agencies issued \$17.5 billion in IDBs for local business development projects. More than 51 percent of these issuances helped firms located in the Northeast and Midwest; New York, New Jersey, and Pennsylvania led the nation in using IDBs to spur economic development and private investment activities.

The 1986 tax act caused the bottom to fall out of the private-activity bond market. Less than \$7 billion worth of small-issue IDBs were sold in 1986; even fewer were issued in 1987. Issuances in the Northeast-Midwest region declined by 59 percent in 1986, to \$3.7 billion, 54 percent of the national total. According to a recent Miami University of Ohio study of municipal finance, nearly three-fourths of the cities surveyed will change their financing policies because of the 1986 statute's new definition of public and private-purpose bond activities.

Restrictions on Eligible Activities. With some exceptions, IDBs are considered taxable issuances. Local community development strategies that rely on tax-exempt financing are, therefore, built around this specific list of "eligible activities". The 1986 tax act imposes stiffer use and security tests to determine whether or not a private activity bond meets a legitimate public

interest and can be defined as tax-exempt. By law, the following private activities can receive tax-exempt bond financing assistance:

- water, sewer, and solid waste facilities;
- government-owned airports, docks, and wharves;
- multifamily housing (with low-income unit set-asides);
- student loans;
- not-for-profit hospital and educational institution projects;
- mass commuting facilities;
- local gas and electric facilities;
- district heating and cooling facilities;
- hazardous waste treatment facilities; and
- qualified redevelopment bonds (formerly public-purpose tax increment finance bonds).

Tax reform eliminated tax-exemption for small issue-IDs, except for manufacturing purposes; eligibility for these will lapse at the end of 1989. Mortgage revenue bonds, used to provide low-interest financing to first-time home buyers, will become ineligible for tax-exemption at the end of 1988. The 1986 tax act also eliminated sports, convention, trade show, and most parking facilities, as well as industrial parks and pollution control facilities, from the list of eligible activities.

Volume Limits. The 1986 tax act brought nearly all types of private-purpose bonds under a "unified" volume cap, an umbrella limit equal in 1987 to the greater of \$75 per resident or \$250 million annually. In 1988, the cap will decline to the greater of \$50 per capita or \$150 million. (For state-by-state figures, see the table at the end of this section.) Activities now subject to volume limitations include:

- small-issue IDs;
- water, sewer, and hazardous waste facilities;
- student loan bonds;
- mortgage revenue bonds;
- general obligation and revenue bonds that fail the "essential function" public-purpose test;
- qualified redevelopment bonds; and
- private-use portions (in excess of \$15 million) of governmental bonds.

Through the vicissitudes of the legislative process, the following eligible tax exempt activities were not placed under the unified cap: government-owned airports, docks, and wharves; government-owned solid waste disposal facilities; and bonds to support non-profit (such as hospitals) and educational institution projects.

The stricter volume limits will cause difficulties for most states in the Northeast and Midwest if they wish to continue using private-purpose tax-exempt bonds as a major financing tool for economic development and social-service facilities. Thirteen of the region's 18 states issued more private activity tax-exempt bonds in 1986--a very light year in terms of issuances--than they will be able to issue in 1988. States such as Michigan (whose 1986 volume was 176 percent of its projected 1988 limit of \$457 million) and New York (1986 volume 170 percent of 1988 limit of \$889 million) will have to make critical choices in terms of bond authority allocations, weighing the needs of student

loans, multifamily housing, and hospitals against streets, utilities, and other development needs.

Tax-exempt bond provisions in the 1986 Tax Reform Act have forced changes in the way that various projects are structured and economic development activities are undertaken in the region. Moreover, many local officials are concerned about the regulations, definitions, and interpretations that could be applied to these new provisions at a later time. For example, future IRS rulings on the definition of "related use" could deter even the use of traditional general obligation bonds for certain types of infrastructure improvements. Jurisdictions within the Northeast and Midwest are reporting that bond counsels are hesitant to write opinions on some prospective IDB issues, pending further IRS clarification, and that developers are taking their investment dollars elsewhere rather than enduring long delays and mountains of paperwork. States such as Massachusetts have begun to shift their financing focus to taxable bonds--often two or three points higher in interest rates, but versatile and marketable.

These changes in IDBs have meant that financing for many major capital projects within the region has had to be repackaged, often with higher financing costs. Government-private partnerships to build and operate solid waste, pollution control, and sewer facilities have suffered. In other areas, changes in tax-exempt finance have inhibited cooperative ventures with private businesses.

**Tax-Exempt Bonds:
Trends in Use for Selected Activities¹**
(in millions of dollars)

Activity	1985 Amount	1986 Amount	1987 Amount
Airports	2,978.0	580.8	1,136.3
Economic Development	661.7	1,038.6	2,050.9
Higher Education	9,926.8	6,965.8	4,051.5
Hospital Facilities	31,088.4	8,497.8	10,597.2
Industrial Development	4,250.5	3,686.8	1,389.7
Mass Transit/Rapid Transit	2,397.6	3,673.6	1,190.8
Multifamily Housing	19,505.6	2,528.5	2,461.6
Pollution Control	10,303.2	3,020.0	3,183.9
Parking Facilities	821.1	486.8	339.0
Roads/Tunnels/Bridges	5,767.7	6,682.3	2,614.6
Seaports	1,288.6	531.8	481.4
Single-Family Housing	13,055.9	5,634.3	7,291.8
Solid Waste/Resource Recovery	3,588.0	2,103.2	1,430.1
Student Loans	3,266.6	1,086.3	1,715.9
Water and Sewer	13,565.1	14,283.9	8,934.5

¹Includes government as well as private purpose bonds.

SOURCE: Public Securities Association, PSA Municipal Data Base, unpublished data, 1988.

Finally, IDBs encourage economic development by offering prospective entrepreneurs and business operators affordable financing that might not be available otherwise. They allow jurisdictions to channel physical development capital to areas consistent with their economic development plans. More important to many states and cities throughout the Northeast and Midwest, tax-exempt financing enhances industry growth and job creation and retention efforts. (See the table at the end of this section for state-by-state tax-exempt bond usage and limits.) States such as New Jersey and Pennsylvania have made extensive and creative use of IDBs to promote local economic revitalization. The new limits on bond issuances have limited their ability to continue such efforts.

Community Development Block Grant Allocations: Fiscal 1987
(in thousands of dollars)

Region and State	Entitlement Communities	State/Non- Entitlement Communities	Total Allocations	Percent of U.S. Total
New England				
Connecticut	24,871	9,111	33,982	1.20
Maine	4,306	9,880	14,186	0.50
Massachusetts	65,016	24,177	89,193	3.14
New Hampshire	3,160	5,845	9,005	0.32
Rhode Island	10,910	3,561	14,471	0.51
Vermont	688	4,929	5,617	0.20
Total	108,951	57,503	166,454	5.86
Mid-Atlantic				
Delaware	5,047	1,442	6,489	0.23
Maryland	40,709	7,015	47,724	1.68
New Jersey	87,579	7,581	95,160	3.35
New York	277,978	36,108	314,086	11.06
Pennsylvania	152,961	38,466	191,427	6.74
Total	564,274	90,612	654,886	23.07
Midwest				
Illinois	131,371	28,903	160,274	5.65
Indiana	32,813	25,201	58,014	2.04
Iowa	11,511	21,754	33,265	1.17
Michigan	91,947	27,879	119,826	4.22
Minnesota	29,823	18,219	48,042	1.69
Ohio	101,473	37,717	139,190	4.90
Wisconsin	30,070	22,610	52,680	1.86
Total	429,008	182,283	611,291	21.53
South				
Alabama	21,359	25,443	46,802	1.65
Arkansas	6,197	18,120	24,317	0.86
District of Columbia	16,922	NA	16,922	0.60
Florida	96,318	21,291	117,609	4.14
Georgia	29,206	31,586	60,792	2.14
Kentucky	17,401	25,328	42,729	1.51
Louisiana	32,357	23,528	55,885	1.97
Mississippi	4,862	27,243	32,105	1.13
North Carolina	16,011	37,533	53,544	1.89
Oklahoma	10,639	14,218	24,857	0.88
South Carolina	9,065	23,127	32,192	1.13
Tennessee	23,331	23,842	47,173	1.66
Texas	120,215	54,056	174,271	6.14
Virginia	28,377	19,784	48,161	1.70
West Virginia	6,777	14,962	21,739	0.77
Total	439,037	360,061	799,098	28.15

**Community Development Block Grant
Allocations: Fiscal 1987 (continued)**
(in thousands of dollars)

Region and State	Entitlement Communities	State/Non- Entitlement Communities	Total Allocations	Percent of U.S. Total
West				
Alaska	1,636	1,526	3,162	0.11
Arizona	22,771	5,610	28,381	1.00
California	279,856	21,851	301,707	10.63
Colorado	17,991	7,824	25,815	0.91
Hawaii	11,435	2,299	13,734	0.48
Idaho	805	6,505	7,310	0.26
Kansas	8,765	14,249	23,014	0.81
Missouri	41,988	21,133	63,121	2.22
Montana	1,247	5,463	6,710	0.24
Nebraska	5,513	10,522	16,035	0.56
Nevada	5,788	1,489	7,277	0.26
New Mexico	5,110	8,278	13,388	0.47
North Dakota	1,250	4,703	5,953	0.21
Oregon	14,010	9,988	23,998	0.85
South Dakota	1,116	6,054	7,170	0.25
Utah	11,039	4,574	15,613	0.55
Washington	32,188	9,570	41,758	1.47
Wyoming	709	2,363	3,072	0.11
Total	463,217	144,001	607,218	21.39
Northeast	673,225	148,115	821,340	28.93
Midwest	429,008	182,283	611,291	21.53
Northeast and Midwest	1,102,233	330,398	1,432,631	50.46
South	439,037	360,061	799,098	28.15
West	463,217	144,001	607,218	21.39
South and West	902,254	504,062	1,406,316	49.54
U.S. Total	2,004,487	834,460	2,838,947	100.00

SOURCE: Staff calculations from U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Community Development Block Grant Program FY 1986 Revised Allocation with Reallocated Amounts (Washington, D.C., March 1987), pp. 1-47.

Community Development Block Grants: Approved Section 108
Guaranteed Loans for Entitlement Communities
(in millions of dollars)

Region and State	Net Fiscal 1987	Cumulative 1978 to 1987	Percent of U.S. Total	Cumulative Projects 1978 to 1987
New England				
Connecticut	0.0	2.0	0.2	4
Maine	0.0	0.0	0.0	0
Massachusetts	0.0	40.8	4.7	18
New Hampshire	0.0	0.0	0.0	0
Rhode Island	0.0	0.2	0.0	1
Vermont	0.0	0.0	0.0	0
Total	0.0	43.0	5.0	23
Mid-Atlantic				
Delaware	0.0	1.0	0.1	2
Maryland	0.0	10.9	1.3	8
New Jersey	0.0	32.2	3.7	7
New York	3.5	86.1	10.0	47
Pennsylvania	0.8	49.7	5.7	31
Total	4.3	179.9	20.8	95
Midwest				
Illinois	1.5	25.3	2.9	8
Indiana	2.5	40.8	4.7	17
Iowa	0.0	3.2	0.4	5
Michigan	1.1	208.4	24.1	18
Minnesota	0.0	0.8	0.1	1
Ohio	3.0	29.6	3.4	19
Wisconsin	0.0	2.0	0.2	5
Total	8.1	310.1	35.8	73
South				
Alabama	0.0	2.5	0.3	3
Arkansas	0.0	0.0	0.0	0
District of Columbia	0.0	0.0	0.0	0
Florida	0.0	35.4	4.1	15
Georgia	1.1	10.1	1.2	6
Kentucky	0.0	24.6	2.8	10
Louisiana	0.0	12.0	1.4	1
Mississippi	0.0	3.5	0.4	3
North Carolina	0.0	6.6	0.8	3
Oklahoma	0.0	0.0	0.0	0
South Carolina	0.0	3.4	0.4	4
Tennessee	0.0	2.5	0.3	1
Texas	7.1	9.3	1.1	6
Virginia	2.0	19.4	2.2	8
West Virginia	0.0	0.0	0.0	0
Total	10.2	129.3	14.9	60

**Community Development Block Grants: Approved Section 108
Guaranteed Loans for Entitlement Communities (continued)**
(in millions of dollars)

Region and State	Net Fiscal 1987	Cumulative 1978 to 1987	Percent of U.S. Total	Cumulative Projects 1978 to 1987
West				
Alaska	0.0	0.0	0.0	0
Arizona	0.0	20.9	2.4	4
California	12.3	112.8	13.0	51
Colorado	1.2	1.8	0.2	2
Hawaii	0.0	0.0	0.0	0
Idaho	0.0	0.0	0.0	0
Kansas	0.0	0.0	0.0	0
Missouri	0.0	39.2	4.5	14
Montana	0.0	0.0	0.0	0
Nebraska	0.0	3.7	0.4	6
Nevada	0.0	0.0	0.0	0
New Mexico	0.0	0.0	0.0	0
North Dakota	0.0	0.0	0.0	0
Oregon	0.0	4.4	0.5	1
South Dakota	0.0	2.9	0.3	4
Utah	0.0	7.7	0.9	4
Washington	4.0	9.5	1.1	7
Wyoming	0.0	0.0	0.0	0
Total	17.5	202.9	23.5	93
Northeast	4.3	222.9	25.8	118
Midwest	8.1	310.1	35.8	73
Northeast and Midwest	12.4	533.0	61.6	191
South	10.2	129.3	14.9	60
West	17.5	202.9	23.5	93
South and West	27.7	332.2	38.4	153
U.S. Total¹	40.1	865.2	100.0	344

¹Totals do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Office of Financial Management, "Section 108 Loan Guarantee Projects," unpublished data, Washington, D.C., September 30, 1987.

**Urban Development Action Grants 1978-1987 Approved
Awards by Grant Type: Large and Small Cities
(in millions of dollars)**

Region and State	Large Cities			Small Cities		
	Cumulative Fiscal 1978-1987	Percent of U.S. Total	Fiscal 1987 Awards ¹	Cumulative Fiscal 1978-1987	Percent of U.S. Total	Fiscal 1987 Awards ¹
New England						
Connecticut	83.4	2.58	-0.25	0.87	0.08	0.00
Maine	16.3	0.51	0.04	21.70	2.06	0.03
Massachusetts	217.0	6.72	-8.95	52.70	5.00	0.03
New Hampshire	23.5	0.73	0.02	5.50	0.52	0.00
Rhode Island	27.6	0.86	8.80	8.20	0.78	0.01
Vermont	8.7	0.27	3.71	13.80	1.31	-0.89
Total	376.5	11.67	11.67	102.77	9.76	3.18
Mid-Atlantic						
Delaware	48.6	1.51	7.14	0.97	0.09	0.00
Maryland	100.4	3.11	9.00	4.80	0.46	-0.04
New Jersey	211.8	6.56	10.86	44.50	4.23	1.16
New York	420.8	13.04	7.65	120.50	11.44	8.91
Pennsylvania	278.5	8.63	46.84	98.90	9.39	11.90
Total	1,060.1	32.85	32.85	269.67	25.61	8.36
Midwest						
Illinois	126.5	3.92	-1.17	45.30	4.30	0.50
Indiana	66.6	2.06	5.37	22.20	2.11	0.82
Iowa	26.8	0.83	0.01	16.70	1.59	0.03
Michigan	234.6	7.27	-3.53	65.10	6.18	-0.12
Minnesota	112.6	3.49	4.96	16.30	1.55	0.60
Ohio	255.1	7.90	20.38	34.60	3.29	-0.90
Wisconsin	55.9	1.73	0.03	22.70	2.16	-0.41
Total	878.1	27.21	27.21	222.90	21.17	6.91
South						
Alabama	27.6	0.86	-2.29	27.60	2.62	1.90
Arkansas	0.0	0.00	0.00	10.30	0.98	0.03
District of Columbia	8.3	0.26	0.00	0.00	0.00	NA
Florida	47.7	1.48	5.96	14.90	1.41	5.70
Georgia	46.3	1.43	9.75	31.10	2.95	-0.13
Kentucky	30.3	0.94	-0.13	38.20	3.63	6.67
Louisiana	67.0	2.08	-0.03	12.50	1.19	0.02
Mississippi	13.9	0.43	4.20	29.90	2.84	14.34
North Carolina	26.9	0.83	0.73	29.60	2.81	0.43
Oklahoma	1.1	0.03	0.16	30.80	2.92	-0.15
South Carolina	45.9	1.42	0.36	18.80	1.79	-0.23
Tennessee	71.0	2.20	2.04	17.70	1.68	1.36
Texas	96.3	2.98	0.21	20.10	1.91	1.41
Virginia	27.2	0.84	2.30	15.50	1.47	-8.41
West Virginia	19.4	0.60	-0.03	21.30	2.02	0.47
Total	528.9	16.39	16.39	318.30	30.22	9.86

Urban Development Action Grants 1978-1987 Approved
Awards by Grant Type: Large and Small Cities (continued)
(in millions of dollars)

Region and State	Large Cities			Small Cities		
	Cumulative Fiscal 1978-1987	Percent of U.S. Total	Fiscal 1987 Awards ¹	Cumulative Fiscal 1978-1987	Percent of U.S. Total	Fiscal 1987 Awards ¹
West						
Alaska	0.0	0.00	0.00	0.00	0.00	0.00
Arizona	4.7	0.15	0.03	13.70	1.30	-0.01
California	156.4	4.85	9.35	49.40	4.69	-3.47
Colorado	16.6	0.51	-0.02	3.70	0.35	0.42
Hawaii	0.0	0.00	0.00	0.00	0.00	0.00
Idaho	0.0	0.00	0.00	1.80	0.17	-0.01
Kansas	3.1	0.10	-0.04	12.80	1.22	-0.04
Missouri	120.0	3.72	5.14	14.70	1.40	0.02
Montana	1.0	0.03	-0.02	6.30	0.60	-0.03
Nebraska	8.9	0.28	-0.01	1.50	0.14	-0.03
Nevada	0.0	0.00	0.00	0.00	0.00	0.00
New Mexico	11.8	0.37	9.97	10.80	1.03	-0.02
North Dakota	0.0	0.00	0.00	6.90	0.66	0.03
Oregon	14.8	0.46	-0.04	3.20	0.30	0.02
South Dakota	4.0	0.12	0.03	5.10	0.48	-0.04
Utah	17.1	0.53	1.12	3.90	0.37	-0.05
Washington	25.5	0.79	-0.91	5.70	0.54	2.81
Wyoming	0.0	0.00	0.00	0.00	0.00	0.00
Total	383.9	11.89	11.89	139.50	13.25	4.32
Northeast	1,436.6	44.51	44.51	372.44	35.36	11.54
Midwest	878.1	27.21	27.21	222.90	21.17	6.91
Northeast and Midwest	2,314.7	71.72	71.72	595.34	56.53	18.45
South	528.9	16.39	16.39	318.30	30.22	9.86
West	383.9	11.89	11.89	139.50	13.25	4.32
South and West	912.8	28.28	28.28	457.80	43.47	14.18
U.S. Total²	3,227.5	100.00	100.00	1,053.14	100.00	32.63

¹1987 award totals are negative in cases where projects were terminated after data were compiled.

²U.S. totals do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Urban Development Action Grants Data Book, Volume 53 (Washington, D.C., December 10, 1987), p. 17.

Urban Development Action Grants,
Investment and Job Creation: 1978-1987¹

State or Region	Number of Awards	UDAG Amount (millions of dollars)	Private Investment (millions of dollars)	Jobs Created	Jobs Retained
New England					
Connecticut	33	84.0	448.0	6,306	2,325
Maine	40	38.0	154.0	4,495	2,101
Massachusetts	150	270.0	1,712.0	40,044	10,386
New Hampshire	12	29.0	134.0	4,354	130
Rhode Island	16	36.0	196.0	7,002	709
Vermont	28	22.0	81.0	2,378	98
Total	279	479.0	2,725.0	64,579	15,749
Mid-Atlantic					
Delaware	19	50.0	217.0	4,057	2,856
Maryland	88	105.0	481.0	7,491	2,774
New Jersey	158	256.0	1,435.0	36,257	7,289
New York	419	541.0	3,194.0	67,315	21,070
Pennsylvania	225	377.0	1,900.0	36,068	5,376
Total	909	1,329.0	7,227.0	151,188	39,365
Midwest					
Illinois	112	172.0	1,214.0	28,322	1,924
Indiana	56	89.0	634.0	10,880	4,564
Iowa	39	43.0	242.0	5,873	3,397
Michigan	119	300.0	3,016.0	32,409	10,295
Minnesota	74	129.0	897.0	15,548	8,136
Ohio	162	290.0	1,467.0	32,354	9,979
Wisconsin	54	79.0	441.0	9,114	4,601
Total	616	1,102.0	7,911.0	134,500	42,896
South					
Alabama	83	55.0	362.0	8,424	2,779
Arkansas	11	10.0	67.0	2,103	826
District of Columbia	5	8.0	35.0	709	375
Florida	26	63.0	421.0	6,508	299
Georgia	79	77.0	639.0	11,917	1,052
Kentucky	38	69.0	406.0	14,074	2,334
Louisiana	39	80.0	508.0	10,903	1,604
Mississippi	36	44.0	516.0	7,249	192
North Carolina	50	56.0	381.0	8,811	423
Oklahoma	32	32.0	140.0	5,689	1,560
South Carolina	33	65.0	384.0	8,919	1,927
Tennessee	54	89.0	543.0	13,174	1,636
Texas	61	116.0	825.0	16,989	3,050
Virginia	24	43.0	237.0	8,590	586
West Virginia	20	41.0	196.0	5,389	449
Total	591	848.0	5,660.0	129,448	19,092

Urban Development Action Grants, Investment
and Job Creation: 1978-1987¹ (continued)

Region and State	Number of Awards	UDAG Amount (millions of dollars)	Private Investment (millions of dollars)	Jobs Created	Jobs Retained
West					
Alaska	0	0.0	0.0	0	0
Arizona	20	18.0	102.0	2,861	300
California	85	206.0	1,467.0	38,485	5,530
Colorado	17	20.0	73.0	962	232
Hawaii	0	0.0	0.0	0	0
Idaho	3	2.0	6.0	220	0
Kansas	13	16.0	75.0	1,368	200
Missouri	73	135.0	671.0	15,807	2,938
Montana	6	7.0	39.0	858	356
Nebraska	8	10.0	84.0	1,369	511
Nevada	0	0.0	0.0	0	0
New Mexico	11	23.0	152.0	3,002	0
North Dakota	7	7.0	45.0	317	0
Oregon	14	18.0	77.0	886	232
South Dakota	10	9.0	55.0	859	184
Utah	14	21.0	218.0	4,917	1,988
Washington	28	31.0	196.0	4,376	420
Wyoming	0	0.0	0.0	0	0
Total	309	523.0	3,260.0	76,287	12,891
Northeast	1,188	1,808.0	9,952.0	215,767	55,114
Midwest	616	1,102.0	7,911.0	134,500	42,896
Northeast and Midwest	1,804	2,910.0	17,863.0	350,267	98,010
South	591	848.0	5,660.0	129,448	19,092
West	309	523.0	3,260.0	76,287	12,891
South and West	900	1,371.0	8,920.0	205,735	31,983
U.S. Total²	2,704	4,281.0	26,783.0	556,002	129,993

¹Totals do not include Puerto Rico or the Territories.

²Cumulative totals through 1987 may be less than prior years in cases where projects were terminated after data were compiled.

SOURCE: Staff calculations from U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Urban Development Action Grants Data Book, Volume 53 (Washington, D.C., December 10, 1987), p. 17.

Economic Development Administration
Obligated Projects: Fiscal 1987
(in thousands of dollars)

Region and State	Public Works	Planning Grants	Economic Adjustment	Three Program Total	Percent of U.S. ¹ Total ¹
New England					
Connecticut	0	100	0	100	0.1
Maine	1,245	352	0	1,597	1.0
Massachusetts	0	250	950	1,200	0.7
New Hampshire	0	85	0	85	0.1
Rhode Island	809	40	0	849	0.5
Vermont	420	140	750	1,310	0.8
Total	2,474	967	1,700	5,141	3.2
Mid-Atlantic					
Delaware	608	50	0	658	0.4
Maryland	1,256	100	2,300	3,656	2.3
New Jersey	4,300	123	480	4,903	3.0
New York	5,122	901	1,848	7,871	4.9
Pennsylvania	3,499	734	1,060	5,293	3.3
Total	14,785	1,908	5,688	22,381	13.8
Midwest					
Illinois	4,006	565	350	4,921	3.0
Indiana	3,448	537	718	4,703	2.9
Iowa	968	353	449	1,770	1.1
Michigan	3,003	714	75	3,792	2.3
Minnesota	4,166	528	0	4,694	2.9
Ohio	3,317	580	1,481	5,378	3.3
Wisconsin	3,306	655	1,395	5,356	3.3
Total	22,214	3,932	4,468	30,614	18.9
South					
Alabama	4,262	594	0	4,856	3.0
Arkansas	1,123	495	679	2,297	1.4
District of Columbia	0	0	0	0	0.0
Florida	2,164	287	0	2,451	1.5
Georgia	2,929	1,010	500	4,439	2.7
Kentucky	2,593	765	500	3,858	2.4
Louisiana	1,634	510	0	2,144	1.3
Mississippi	3,795	715	0	4,510	2.8
North Carolina	2,581	512	774	3,867	2.4
Oklahoma	4,230	598	500	5,328	3.3
South Carolina	4,657	663	1,150	6,470	4.0
Tennessee	2,266	661	800	3,727	2.3
Texas	8,595	1,209	436	10,240	6.3
Virginia	1,130	502	1,429	3,061	1.9
West Virginia	2,570	611	95	3,276	2.0
Total	44,529	9,132	6,863	60,524	37.5

Economic Development Administration
Obligated Projects: Fiscal 1987 (continued)
(in thousands of dollars)

Region and State	Public Works	Planning Grants	Economic Adjustment	Three Program Total	Percent of U.S. ¹ Total
West					
Alaska	350	406	0	756	0.5
Arizona	1,877	238	0	2,115	1.3
California	7,611	816	675	9,102	5.6
Colorado	200	324	1,238	1,762	1.1
Hawaii	0	175	0	175	0.1
Idaho	2,216	549	550	3,315	2.1
Kansas	2,236	343	0	2,579	1.6
Missouri	2,612	661	500	3,773	2.3
Montana	2,082	410	0	2,492	1.5
Nebraska	0	240	0	240	0.1
Nevada	848	174	0	1,022	0.6
New Mexico	430	477	0	907	0.6
North Dakota	1,001	500	649	2,150	1.3
Oregon	3,219	605	662	4,486	2.8
South Dakota	812	506	0	1,318	0.8
Utah	500	300	700	1,500	0.9
Washington	3,330	887	375	4,592	2.8
Wyoming	576	77	0	653	0.4
Total	29,900	7,688	5,349	42,937	26.6
Northeast	17,259	2,875	7,388	27,522	17.0
Midwest	22,214	3,932	4,468	30,614	18.9
Northeast and Midwest	39,473	6,807	11,856	58,136	36.0
South	44,529	9,132	6,863	60,524	37.5
West	29,900	7,688	5,349	42,937	26.6
South and West	74,429	16,820	12,212	103,461	64.0
U.S. Total²	113,902	23,627	24,068	161,597	100.0

¹Totals do not include research and technical assistance grants that totaled nationally to \$1 million and \$7 million, respectively, in fiscal 1987.

²U.S. totals do not include funds for Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Commerce, Economic Development Administration, unpublished preliminary data, Washington, D.C., January 1988.

Small Business Administration (SBA) Program Levels: Fiscal 1987
(in millions of dollars)

Region and State	Total Direct Loans	Guaranteed Loans			Selected Investment Companies		Total SBA Activity	
		Total	General Business (7A)	Section 503/504	SBIC	MEBIC	Amount	Percent
New England								
Connecticut	0.56	11.13	8.35	2.57	11.00	0.00	22.69	0.8
Maine	0.04	20.89	18.45	2.45	0.00	0.00	20.93	0.7
Massachusetts	1.15	53.78	33.93	19.85	16.50	0.00	71.43	2.5
New Hampshire	0.02	31.20	21.14	10.06	1.20	0.00	32.42	1.1
Rhode Island	0.06	13.51	9.77	3.73	0.00	0.00	13.57	0.5
Vermont	0.09	46.87	45.43	1.43	0.00	0.00	46.96	1.7
Total	1.92	177.38	137.07	40.09	28.70	0.00	208.00	7.4
Mid-Atlantic								
Delaware	0.00	3.08	2.03	1.05	0.00	0.00	3.08	0.1
Maryland	1.26	17.70	11.44	6.26	0.00	0.00	18.96	0.7
New Jersey	0.91	38.66	37.05	1.61	0.77	0.00	40.34	1.4
New York	1.13	145.37	131.52	13.85	21.06	7.38	174.94	6.2
Pennsylvania	0.02	55.35	51.62	3.02	0.00	0.00	55.37	2.0
Total	3.32	260.16	233.66	25.79	21.83	7.38	292.69	10.4
Midwest								
Illinois	2.08	88.39	82.60	4.72	6.60	0.00	97.07	3.4
Indiana	0.05	28.62	19.49	9.14	0.00	0.00	28.67	1.0
Iowa	0.80	69.25	64.25	4.82	0.00	0.00	70.05	2.5
Michigan	0.62	43.65	33.39	10.26	0.00	0.74	45.01	1.6
Minnesota	0.37	47.64	36.87	10.77	11.77	0.00	59.78	2.1
Ohio	1.88	74.74	51.23	23.46	5.39	0.00	82.01	2.9
Wisconsin	2.73	100.37	81.24	19.03	12.62	0.00	115.72	4.1
Total	8.53	452.66	369.07	82.20	36.38	0.74	498.31	17.6
South								
Alabama	2.80	29.97	24.20	5.76	0.50	0.50	33.77	1.2
Arkansas	0.65	13.72	12.63	1.09	0.00	0.50	14.87	0.5
District of Columbia	0.14	2.79	1.44	0.59	6.50	0.00	9.43	0.3
Florida	1.00	46.76	45.55	1.21	3.28	1.80	52.84	1.9
Georgia	2.53	112.81	99.68	13.13	0.00	0.00	115.34	4.1
Kentucky	2.39	52.25	51.17	1.00	0.00	0.00	54.64	1.9
Louisiana	0.82	16.50	13.49	2.37	0.30	0.00	17.62	0.6
Mississippi	1.24	16.04	13.57	2.48	0.00	0.00	17.28	0.6
North Carolina	0.79	32.32	19.39	12.91	0.00	0.00	33.11	1.2
Oklahoma	0.13	39.85	37.34	2.50	1.00	0.00	40.98	1.5
South Carolina	0.83	11.34	11.01	0.34	1.02	0.00	13.19	0.5
Tennessee	0.58	62.54	58.52	4.02	0.00	0.00	63.12	2.2
Texas	3.08	184.95	173.84	11.00	31.07	2.00	221.10	7.8
Virginia	0.70	14.47	8.47	6.00	8.00	0.00	23.17	0.8
West Virginia	0.23	14.55	11.74	2.58	0.00	0.00	14.78	0.5
Total	17.91	650.86	582.04	66.98	51.67	4.80	725.24	25.7

Small Business Administration (SBA) Program Levels: Fiscal 1987
(in millions of dollars)

Region and State	Total Direct Loans	Guaranteed Loans			Selected Investment Companies		Total SBA Activity	
		Total	General Business (7A)	Section 503/504	SBIC	MCSBIC	Amount	Percent
West								
Alaska	1.80	27.18	25.82	1.36	0.00	0.00	28.98	1.0
Arizona	0.92	37.87	33.82	4.06	0.00	0.00	38.79	1.4
California	36.83	405.11	356.82	47.48	11.56	1.50	455.00	16.1
Colorado	1.13	51.67	47.53	4.17	0.00	0.00	52.80	1.9
Hawaii	0.08	13.04	8.57	4.47	0.00	0.00	13.12	0.5
Idaho	0.85	25.48	19.94	5.70	0.00	0.00	26.33	0.9
Kansas	0.94	73.49	68.96	4.53	0.00	0.00	74.43	2.6
Missouri	1.40	104.41	83.03	21.37	0.71	0.00	106.52	3.8
Montana	0.32	59.99	59.55	0.39	1.20	0.00	61.51	2.2
Nebraska	0.00	24.11	23.40	0.66	0.50	0.00	24.61	0.9
Nevada	0.13	13.31	8.24	5.07	0.00	0.00	13.44	0.5
New Mexico	0.43	26.70	26.70	0.00	0.50	0.30	27.93	1.0
North Dakota	0.07	14.50	13.61	0.90	0.00	0.00	14.57	0.5
Oregon	0.85	26.37	21.54	4.22	0.00	0.00	27.22	1.0
South Dakota	0.83	30.51	29.59	0.92	0.00	0.00	31.34	1.1
Utah	0.03	36.68	24.96	11.72	0.00	0.00	36.71	1.3
Washington	0.34	56.07	41.69	13.69	0.00	0.00	56.41	2.0
Wyoming	0.00	11.81	11.81	0.00	0.00	0.00	11.81	0.4
Total	46.95	1,038.30	905.58	130.71	14.47	1.80	1,101.52	39.0
Northeast	5.24	437.54	370.73	65.88	50.53	7.38	500.69	17.7
Midwest	8.53	452.66	369.07	82.20	36.38	0.74	498.31	17.6
Northeast and Midwest	13.77	890.20	739.80	148.08	86.91	8.12	999.00	35.4
South	17.91	650.86	582.04	66.98	51.67	4.80	725.24	25.7
West	46.95	1,038.30	905.58	130.71	14.47	1.80	1,101.52	39.0
South and West	64.86	1,689.16	1,487.62	197.69	66.14	6.60	1,826.76	64.6
U.S. Total¹	78.63	2,579.36	2,227.42	345.77	153.05	14.72	2,825.76	100.0

¹ U.S. figures do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Small Business Administration, "Program Activity," unpublished report, Washington, D.C., February 1988.

Section 8 Assisted Housing Occupancy: Fiscal 1987
(total units as of 9/30/87)

Region and State	New Construction	Substantial Rehabilitation	Moderate Rehabilitation	Existing	Housing Vouchers Reserved	Total	Percent of U.S. Total
New England							
Connecticut	10,957	4,843	2,838	20,777	1,986	41,401	1.7
Maine	4,733	2,463	1,389	6,732	569	15,886	0.7
Massachusetts	21,604	13,914	6,017	51,536	3,739	96,810	4.1
New Hampshire	3,724	1,233	378	4,737	561	10,633	0.4
Rhode Island	9,289	2,563	602	7,751	750	20,955	0.9
Vermont	2,017	1,028	132	2,481	408	6,066	0.3
Total	52,324	26,044	11,356	94,014	8,013	191,751	8.1
Mid-Atlantic							
Delaware	3,179	450	124	3,353	362	7,468	0.3
Maryland	14,197	2,688	2,929	25,192	2,281	47,287	2.0
New Jersey	25,872	9,623	4,134	38,579	5,082	83,290	3.5
New York	50,095	28,947	12,389	120,118	14,685	226,234	9.5
Pennsylvania	37,280	5,278	4,752	53,221	4,912	105,443	4.4
Total	130,623	46,986	24,328	240,463	27,322	469,722	19.8
Midwest							
Illinois	37,731	7,520	8,040	40,502	5,414	99,207	4.2
Indiana	18,812	1,594	1,549	30,138	2,135	54,228	2.3
Iowa	10,617	320	931	13,129	1,282	26,279	1.1
Michigan	36,366	1,947	1,142	34,813	3,944	78,212	3.3
Minnesota	21,115	1,317	698	23,623	2,148	48,901	2.1
Ohio	35,721	7,967	6,587	71,271	5,266	126,812	5.3
Wisconsin	23,442	1,298	1,146	20,437	1,759	48,082	2.0
Total	183,804	21,963	20,093	233,913	21,948	481,721	20.3
South							
Alabama	12,041	1,070	1,910	15,470	1,750	32,241	1.4
Arkansas	6,503	461	143	17,490	1,282	25,879	1.1
District of Columbia	3,108	3,104	2,067	6,711	410	15,400	0.6
Florida	20,921	1,687	7,135	55,427	4,885	90,055	3.8
Georgia	13,981	2,847	1,599	31,001	2,608	52,036	2.2
Kentucky	15,799	2,025	1,489	19,373	1,699	40,385	1.7
Louisiana	10,110	728	2,045	22,590	2,115	37,588	1.6
Mississippi	10,550	896	1,082	14,400	1,239	28,167	1.2
North Carolina	17,384	1,638	3,855	31,514	3,069	57,460	2.4
Oklahoma	5,752	537	2,491	19,273	1,469	29,522	1.2
South Carolina	11,777	382	1,924	14,184	1,298	29,565	1.2
Tennessee	18,259	2,181	2,075	23,651	2,241	48,407	2.0
Texas	25,587	1,345	5,705	88,989	7,344	128,970	5.4
Virginia	20,068	2,755	4,128	23,194	2,754	52,899	2.2
West Virginia	8,774	537	618	22,612	2,807	35,348	1.5
Total	200,614	22,193	38,266	405,879	36,970	703,922	29.6

Section 8 Assisted Housing Occupancy: Fiscal 1987 (continued)
(total units as of 9/30/87)¹

State or Region	New Construction	Substantial Rehabilitation	Moderate Rehabilitation	Existing	Housing Vouchers Reserved	Total	Percent of U.S. Total
West							
Alaska	854	0	0	2,332	196	3,382	0.1
Arizona	4,854	370	651	13,228	1,271	20,374	0.9
California	53,001	5,432	7,315	179,937	17,936	263,621	11.1
Colorado	10,096	1,278	2,253	15,077	2,435	31,139	1.3
Hawaii	2,343	8	83	7,466	637	10,537	0.4
Idaho	3,250	209	120	3,566	209	7,354	0.3
Kansas	8,437	126	350	7,010	753	16,676	0.7
Missouri	16,457	3,284	3,783	27,145	2,256	52,925	2.2
Montana	2,604	32	781	3,754	469	7,640	0.3
Nebraska	4,789	296	761	7,907	1,224	14,977	0.6
Nevada	2,122	397	763	4,343	552	8,177	0.3
New Mexico	2,994	4	489	9,317	870	13,674	0.6
North Dakota	2,887	261	523	4,602	346	8,619	0.4
Oregon	5,542	1,148	1,319	18,968	1,585	28,562	1.2
South Dakota	3,361	260	635	4,711	319	9,286	0.4
Utah	2,799	266	704	4,701	755	9,225	0.4
Washington	8,678	324	1,102	9,769	1,530	21,403	0.9
Wyoming	1,737	79	20	1,186	238	3,260	0.1
Total	136,805	13,774	21,652	325,019	33,581	530,831	22.3
Northeast	182,947	73,030	35,684	334,477	35,335	661,473	27.8
Midwest	183,804	21,963	20,093	233,913	21,948	481,721	20.3
Northeast and Midwest	366,751	94,993	55,777	568,390	57,283	1,143,194	48.1
South	200,614	22,193	38,266	405,879	36,970	703,922	29.6
West	136,805	13,774	21,652	325,019	33,581	530,831	22.3
South and West	337,419	35,967	59,918	730,898	70,551	1,234,753	51.9
U.S. Total	704,170	130,960	115,695	1,299,288	127,834	2,377,947	100.0

¹ Terminated projects are excluded.

SOURCE: Staff calculations from U.S. Department of Housing and Urban Development, Assisted Housing Branch, Housing Information Systems, unpublished data, November 1987.

Public Housing Authority, Inventory and Funding: Fiscal 1986

Region and State	Total Dwelling Units	Percent of U.S. Total	Operating Subsidy (in millions of dollars)	Modernization Funding (CIAP)	Units Improved (CIAP)
New England					
Connecticut	19,116	1.5	22.7	19.5	4,971
Maine	4,044	0.3	2.7	3.8	837
Massachusetts	37,426	3.0	30.9	46.0	13,004
New Hampshire	4,374	0.4	1.1	1.6	320
Rhode Island	9,733	0.8	6.4	5.7	5,664
Vermont	1,794	0.1	0.8	1.0	60
Total	76,487	6.2	64.6	77.6	24,856
Mid-Atlantic					
Delaware	3,168	0.3	4.5	2.3	1,832
Maryland	25,940	2.1	37.3	19.1	4,558
New Jersey	49,651	4.0	65.6	62.6	22,465
New York	190,828	15.4	218.1	126.2	55,953
Pennsylvania	80,374	6.5	106.6	51.8	20,514
Total	349,961	28.2	432.1	262.0	105,322
Midwest					
Illinois	79,075	6.4	125.2	34.1	15,481
Indiana	18,387	1.5	15.4	6.9	4,148
Iowa	4,492	0.4	0.1	0.2	90
Michigan	30,888	2.5	98.6	10.8	9,723
Minnesota	21,283	1.7	9.0	9.4	7,249
Ohio	55,823	4.5	65.9	24.0	14,798
Wisconsin	13,757	1.1	5.8	5.4	2,961
Total	223,705	18.1	320.0	90.8	54,450
South					
Alabama	42,902	3.5	30.1	18.2	5,481
Arkansas	15,124	1.2	7.5	7.3	2,583
District of Columbia	12,528	1.0	29.5	0.0	0
Florida	42,463	3.4	34.5	14.6	7,138
Georgia	56,759	4.6	37.8	23.7	5,219
Kentucky	25,855	2.1	17.9	10.4	7,744
Louisiana	31,787	2.6	21.7	15.2	5,298
Mississippi	13,151	1.1	5.2	3.9	2,074
North Carolina	39,078	3.2	25.2	13.4	6,373
Oklahoma	12,926	1.0	7.6	11.0	9,325
South Carolina	15,832	1.3	6.4	9.0	2,854
Tennessee	41,114	3.3	35.8	14.1	2,966
Texas	64,238	5.2	38.0	29.4	18,358
Virginia	23,456	1.9	23.5	29.3	2,201
West Virginia	7,091	0.6	6.5	4.5	979
Total	444,309	35.9	327.2	204.0	78,593

Public Housing Authority, Inventory and Funding: Fiscal 1986
(continued)

Region and State	Total Dwelling Units	Percent of U.S. Total	Operating Subsidy (in millions of dollars)	Modernization Funding (CIAP)	Units Improved (CIAP)
West					
Alaska	1,677	0.1	NA	5.5	472
Arizona	5,666	0.5	13.0	5.8	2,127
California	44,812	3.6	28.7	18.4	6,798
Colorado	8,956	0.7	4.8	2.3	972
Hawaii	5,189	0.4	0.4	3.7	221
Idaho	768	0.1	0.4	0.1	150
Kansas	8,563	0.7	4.3	1.9	1,167
Missouri	21,079	1.7	15.7	3.1	1,787
Montana	1,868	0.2	3.4	5.3	1,367
Nebraska	7,805	0.6	3.2	3.3	458
Nevada	4,270	0.3	4.8	2.8	1,641
New Mexico	4,914	0.4	2.5	3.3	3,135
North Dakota	1,948	0.2	2.9	0.5	311
Oregon	5,711	0.5	5.1	4.3	1,314
South Dakota	1,579	0.1	6.4	1.3	847
Utah	1,889	0.2	1.2	0.2	259
Washington	17,145	1.4	10.0	2.8	3,195
Wyoming	502	0.0	0.6	0.1	202
Total	144,341	11.7	107.4	64.7	26,423
Northeast	426,448	34.4	496.7	339.6	130,178
Midwest	223,705	18.1	320.0	90.8	54,450
Northeast and Midwest	650,153	52.5	816.7	430.4	184,628
South	444,309	35.9	327.2	204.0	78,593
West	144,341	11.7	107.4	64.7	26,423
South and West	588,650	47.5	434.6	268.7	105,016
U.S. Total¹	1,238,803	100.0	1,251.3	699.1	289,644

¹U.S. totals do not include Puerto Rico or the Territories.

SOURCES: U.S. Department of Housing and Urban Development, Public Housing Program, unpublished data, June 1987; and Public Housing Financial Management Branch, unpublished data, May 1987 and November 1987.

Trends in Rental Rehabilitation Program: Fiscal 1985-1987
(in thousands of dollars)

Region and State	Entitlement Cities			Cumulative Fiscal 1984-87	Percent of U.S. Total	States			Cumulative Fiscal 1985-87	Percent of U.S. Total
	Fiscal 1985	Fiscal 1986	Fiscal 1987			Fiscal 1985	Fiscal 1986	Fiscal 1987		
New England										
Connecticut	1,186	503	1,759	4,654	1.1	847	476	963	3,139	1.9
Maine	123	59	165	471	0.1	501	241	670	1,902	1.2
Massachusetts	3,078	1,424	4,355	11,901	2.9	1,869	959	2,270	6,985	4.3
New Hampshire	177	58	237	652	0.2	287	165	384	1,112	0.7
Rhode Island	446	214	708	1,819	0.4	450	217	492	1,611	1.0
Vermont	NA	NA	NA	NA	NA	228	110	305	865	0.5
Total	5,010	2,258	7,224	19,577	4.8	4,182	2,168	5,084	15,614	9.6
Mid-Atlantic										
Delaware	242	116	324	929	0.2	41	200	55	330	0.2
Maryland	2,205	1,057	2,938	8,442	2.1	361	179	498	1,391	0.9
New Jersey	4,556	2,048	6,140	17,127	4.2	1,007	580	1,311	4,050	2.5
New York	19,741	9,475	26,655	75,920	18.6	1,998	931	2,426	6,402	3.9
Pennsylvania	5,805	2,534	7,618	21,811	5.3	1,747	924	2,497	14,963	9.2
Total	32,549	15,230	43,675	124,229	30.4	5,154	2,814	6,787	27,136	16.7
Midwest										
Illinois	7,153	3,258	9,787	27,406	6.7	1,557	937	1,877	5,777	3.5
Indiana	1,383	667	1,925	5,431	1.3	1,066	513	1,355	3,847	2.4
Iowa	513	219	801	2,055	0.5	699	365	822	2,531	1.6
Michigan	3,293	1,453	4,380	12,400	3.0	1,557	882	2,113	6,095	3.7
Minnesota	1,100	537	1,671	4,374	1.1	695	328	901	2,703	1.7
Ohio	4,584	2,151	6,327	17,712	4.3	1,920	984	2,389	7,142	4.4
Wisconsin	1,256	543	1,800	4,876	1.2	984	536	1,199	3,716	2.3
Total	19,282	8,828	26,691	74,334	18.2	8,478	4,545	10,656	31,811	19.5
South										
Alaska	101	47	130	375	0.1	62	29	81	233	0.1
Arkansas	244	119	389	998	0.2	755	354	950	2,813	1.7
District of Columbia	932	443	1,231	3,526	0.9	NA	NA	NA	NA	NA
Florida	4,892	2,243	5,848	18,772	4.6	1,394	772	1,565	5,200	3.2
Georgia	1,688	808	2,302	6,468	1.6	1,420	648	1,761	5,181	3.2
Kentucky	719	342	1,010	2,779	0.7	914	410	1,080	3,257	2.0
Louisiana	1,900	925	2,621	7,365	1.8	786	354	945	2,821	1.7
Mississippi	179	84	234	671	0.2	851	403	1,120	3,211	2.0
North Carolina	997	411	1,314	3,704	0.9	1,430	714	1,813	5,310	3.3
Oklahoma	735	315	958	2,724	0.7	756	399	1,026	2,947	1.8
South Carolina	476	226	631	1,804	0.4	897	405	1,124	3,265	2.0
Tennessee	1,435	681	2,119	5,646	1.4	896	403	894	3,032	1.9
Texas	5,681	2,448	7,947	21,722	5.3	2,450	1,439	2,878	9,192	5.6
Virginia	7,768	642	2,312	6,451	1.6	885	579	1,081	3,351	2.1
West Virginia	146	69	193	552	0.1	502	237	658	1,888	1.2
Total	28,803	10,238	31,501	87,066	21.3	14,885	7,566	18,091	54,996	33.8

Trends in Mental Rehabilitation Program: Fiscal 1985-1987 (continued)
(in thousands of dollars)

Region and State	Entitlement Cities			Cumulative Fiscal 1984-87	Percent of U.S. Total	States			Cumulative Fiscal 1985-87	Percent of U.S. Total
	Fiscal 1985	Fiscal 1986	Fiscal 1987			Fiscal 1985	Fiscal 1986	Fiscal 1987		
West										
Alaska	101	47	130	375	0.1	62	29	81	233	0.1
Arizona	1,185	435	1,689	4,530	1.1	295	287	316	1,125	0.7
California	17,391	7,478	23,392	65,147	15.9	2,200	1,933	3,087	9,957	6.1
Colorado	1,247	533	1,727	4,674	1.1	540	304	603	2,018	1.2
Hawaii	568	270	751	2,150	0.5	48	39	107	274	0.2
Idaho	74	35	96	277	0.1	267	139	387	1,082	0.7
Kansas	511	711	745	2,468	0.6	562	359	733	2,236	1.4
Missouri	1,810	827	2,458	6,877	1.7	820	422	1,015	3,069	1.9
Montana	61	29	146	297	0.1	295	154	362	1,129	0.7
Nebraska	409	196	543	1,553	0.4	289	127	356	1,039	0.6
Nevada	463	216	601	1,726	0.4	76	400	110	671	0.4
New Mexico	263	123	449	1,089	0.3	386	184	405	1,359	0.8
North Dakota	60	29	81	231	0.1	179	810	224	1,379	0.8
Oregon	967	549	1,430	4,014	1.0	641	279	773	2,270	1.4
South Dakota	63	30	83	238	0.1	210	100	279	797	0.5
Utah	495	153	615	1,723	0.4	199	166	271	838	0.5
Washington	1,663	820	2,342	6,451	1.6	784	435	1,017	3,105	1.9
Wyoming	NA	NA	NA	NA	NA	164	83	231	650	0.4
Total	27,331	12,481	37,278	103,820	25.4	8,017	6,250	10,357	33,231	20.4
Northeast	37,559	17,488	50,899	143,806	35.2	9,336	4,982	11,871	42,750	26.3
Midwest	19,282	8,828	26,691	74,334	18.2	8,478	4,545	10,656	31,811	19.5
Northeast and Midwest	56,841	26,316	77,590	218,140	53.3	17,814	9,527	22,527	74,561	45.8
South	28,803	10,238	31,501	87,066	21.3	14,885	7,566	18,091	54,996	33.8
West	27,331	12,481	37,278	103,820	25.4	8,017	6,250	10,357	33,231	20.4
South and West	56,134	22,719	68,779	190,886	46.7	22,902	13,816	28,448	88,227	54.2
U.S. Total¹	112,975	49,035	146,369	409,026	100.0	40,716	23,343	50,975	162,788	100.0

¹ U.S. figures do not include funds for Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Federal Register, vol. 52, no. 74, April 17, 1987, pp. 12610-12616.

Trends in Housing Development Grant Programs: Fiscal Years 1984-1987
(in thousands of dollars)

Region and State	Amount		Cumulative Fiscal 1984-87	Percent of Total	Total Units		Cumulative Fiscal 1984-87	Percent of Total
	Fiscal 1985	Fiscal 1986			Fiscal 1985	Fiscal 1986		
New England								
Connecticut	861	NA	6,961	1.4	42	NA	NA	1.4
Maine	NA	NA	7,022	1.5	NA	NA	NA	0.8
Massachusetts	9,372	10,597	46,140	9.6	403	595	503	8.3
New Hampshire	NA	7,648	23,062	4.8	NA	242	316	1.2
Rhode Island	NA	2,100	7,053	1.5	NA	36	NA	1.2
Vermont	NA	NA	2,900	1.4	NA	NA	80	0.7
Total	10,233	19,345	96,938	20.2	445	667	583	13.7
Mid-Atlantic								
Delaware	NA	NA	1,090	0.2	NA	NA	NA	0.2
Maryland	NA	516	11,921	2.5	NA	48	246	2.4
New Jersey	4,253	5,507	19,610	4.1	163	225	64	653
New York	4,418	7,652	1,033	56,181	11.7	192	336	39
Pennsylvania	NA	NA	427	19,494	4.1	NA	NA	27
Total	8,671	13,675	9,210	108,256	22.5	355	609	376
Midwest								
Illinois	2,056	5,605	600	31,171	6.5	163	223	26
Indiana	NA	NA	NA	NA	NA	NA	NA	NA
Iowa	730	NA	4,230	0.9	36	NA	NA	178
Michigan	3,368	NA	5,065	21,325	4.4	211	NA	247
Minnesota	550	600	1,549	5,351	1.1	24	23	88
Ohio	NA	NA	444	17,139	3.6	NA	118	30
Wisconsin	NA	NA	8,253	14,255	3.0	NA	123	410
Total	6,704	6,205	15,911	93,471	19.4	434	487	801
South								
Alabama	1,441	NA	5,678	1.2	128	NA	NA	412
Arkansas	NA	NA	NA	NA	NA	NA	NA	NA
District of Columbia	NA	1,982	6,123	1.3	NA	100	NA	350
Florida	NA	2,824	13,041	7.5	NA	170	567	1,963
Georgia	1,450	5,444	1,590	20,942	4.4	125	272	100
Kentucky	NA	NA	1,430	0.3	NA	NA	NA	60
Louisiana	NA	NA	2,992	0.6	NA	NA	60	181
Mississippi	NA	875	1,425	0.3	NA	NA	64	112
North Carolina	NA	NA	NA	NA	NA	NA	NA	NA
South Carolina	NA	NA	1,917	0.4	NA	NA	NA	112
Tennessee	NA	NA	446	0.1	NA	NA	NA	240
Texas	400	693	2,193	0.5	40	52	NA	180
Virginia	NA	NA	4,100	0.9	NA	NA	NA	200
West Virginia	NA	NA	NA	NA	NA	NA	NA	NA
Total	3,291	10,953	16,616	83,435	17.4	293	594	791

Trends in Housing Development Grant Programs: Fiscal Years 1984-1987 (continued)
(in thousands of dollars)

Region and State	Amount		Cumulative		Percent of Total	Total Units		Cumulative Fiscal 1984-87	Percent of Total
	Fiscal 1985	Fiscal 1986	Fiscal 1987	Fiscal 1984-87		Fiscal 1985	Fiscal 1986		
West									
Alaska	NA	NA	NA	NA	NA	NA	NA	NA	NA
Arizona	NA	2,128	900	3,028	0.6	NA	212	267	1.1
California	NA	16,815	14,325	67,234	14.0	NA	1,109	4,169	17.7
Colorado	NA	NA	NA	5,752	1.2	NA	NA	331	1.4
Hawaii	NA	NA	NA	NA	NA	NA	NA	NA	NA
Idaho	NA	NA	NA	NA	NA	NA	NA	NA	NA
Kansas	NA	NA	NA	NA	NA	NA	NA	NA	NA
Missouri	NA	750	NA	6,362	1.3	NA	40	332	1.4
Montana	NA	NA	NA	NA	NA	NA	NA	NA	NA
Nebraska	NA	1,010	NA	3,650	0.8	NA	66	196	0.8
Nevada	NA	NA	NA	NA	NA	NA	NA	NA	NA
New Mexico	NA	NA	NA	NA	NA	NA	NA	NA	NA
North Dakota	NA	NA	NA	NA	NA	NA	NA	NA	NA
Oregon	NA	NA	NA	NA	NA	NA	NA	NA	NA
South Dakota	NA	NA	NA	628	0.1	NA	NA	46	0.2
Utah	NA	846	NA	7,904	1.6	NA	60	420	1.8
Washington	703	NA	2,716	4,211	0.9	98	NA	132	1.1
Wyoming	NA	NA	NA	NA	NA	NA	NA	44	0.2
Total	703	21,549	17,941	98,769	20.5	98	1,487	6,063	25.7
Northeast	18,904	33,020	40,189	205,194	42.7	800	1,276	7,796	33.0
Midwest	6,704	6,205	15,911	93,471	19.4	434	487	4,764	20.2
Northeast and Midwest	25,608	39,225	56,100	298,665	62.1	1,234	1,763	12,560	53.2
South	3,291	10,953	16,616	83,435	17.4	293	594	4,967	21.1
West	703	21,549	17,941	98,769	20.5	98	1,487	6,063	25.7
South and West	3,994	32,502	34,557	182,204	37.9	391	2,081	11,030	46.8
U.S. Total	29,602	71,727	90,657	480,869	100.0	1,625	3,844	23,590	100.0

SOURCE: U.S. Department of Housing and Urban Development, Housing Development Program, "List of Selected Projects for 1987 Funding Round," unpublished data, Washington, D.C., September 1987.

Farmers Home Administration
Economic Development Programs, Funding Allocations, Fiscal 1988
(in thousands of dollars)

Region and State	Community Facility Loans	Water and Waste Disposal Loans/Grants	Business and Industry Loans/ Guarantees	State Total	Percent of U.S. Total
New England					
Connecticut	731	3,449	575	4,755	0.9
Maine	778	3,669	762	5,209	1.0
Massachusetts	1,082	5,105	801	6,988	1.3
New Hampshire	489	2,308	500	3,297	0.6
Rhode Island	470	882	500	1,852	0.6
Vermont	470	1,987	500	2,957	0.6
Total	4,020	17,400	3,638	25,058	5.0
Mid-Atlantic					
Delaware	470	1,149	500	2,119	0.6
Maryland	972	4,584	824	6,380	1.2
New Jersey	937	4,419	1,135	6,491	1.2
New York	3,662	17,273	3,172	24,107	4.5
Pennsylvania	4,373	20,627	3,903	28,903	5.4
Total	10,414	48,052	9,534	68,000	12.9
Midwest					
Illinois	2,426	11,446	2,776	16,648	3.0
Indiana	2,290	10,804	2,387	15,481	2.8
Iowa	1,381	6,515	1,244	9,140	1.7
Michigan	3,331	15,713	3,157	22,201	4.1
Minnesota	1,542	7,275	1,563	10,380	1.9
Ohio	3,456	16,303	3,149	22,908	4.3
Wisconsin	1,856	8,757	1,788	12,401	2.3
Total	16,282	76,813	16,064	109,159	20.2
South					
Alabama	2,432	11,523	2,325	16,280	3.0
Arkansas	1,771	8,356	1,703	11,830	2.2
District of Columbia	NA	NA	NA	NA	NA
Florida	2,025	9,553	2,636	14,214	2.5
Georgia	3,063	14,449	2,690	20,202	3.8
Kentucky	2,858	13,483	2,908	19,249	3.5
Louisiana	2,123	10,017	2,177	14,317	2.6
Mississippi	2,503	11,806	2,364	16,673	3.1
North Carolina	4,278	20,183	3,880	28,341	5.3
Oklahoma	1,324	6,243	1,392	8,959	1.6
South Carolina	2,098	9,896	1,882	13,876	2.6
Tennessee	2,759	13,017	2,659	18,435	3.4
Texas	4,091	19,297	3,468	26,856	5.1
Virginia	2,268	10,701	1,882	14,851	2.8
West Virginia	1,736	8,190	1,835	11,761	2.1
Total	35,329	166,714	33,801	235,844	43.7

**Farmers Home Administration Economic Development Programs,
Funding Allocations, Fiscal 1988 (continued)
(in thousands of dollars)**

Region and State	Community Facility Loans	Water and Waste Disposal Loans/Grants	Business and Industry Loans/ Guarantees	State Total	Percent of U.S. Total
West					
Alaska	470	959	500	1,929	0.6
Arizona	568	2,681	630	3,879	0.7
California	2,549	12,023	2,504	17,076	3.2
Colorado	663	3,130	583	4,376	0.8
Hawaii	470	905	500	1,875	0.6
Idaho	568	2,677	544	3,789	0.7
Kansas	933	4,401	746	6,080	1.2
Missouri	2,025	9,552	1,858	13,435	2.5
Montana	479	2,258	500	3,237	0.6
Nebraska	700	3,304	552	4,556	0.9
Nevada	470	840	500	1,810	0.6
New Mexico	555	2,616	614	3,785	0.7
North Dakota	470	2,070	500	3,040	0.6
Oregon	1,046	4,936	1,073	7,055	1.3
South Dakota	545	2,572	500	3,617	0.7
Utah	470	1,344	500	2,314	0.6
Washington	1,294	6,106	1,462	8,862	1.6
Wyoming	470	1,032	500	2,002	0.6
Total	14,745	63,406	14,566	92,717	18.3
Northeast	14,434	65,452	13,172	93,058	17.9
Midwest	16,282	76,813	16,064	109,159	20.2
Northeast and Midwest	30,716	142,265	29,236	202,217	38.0
South	35,329	166,714	33,801	235,844	43.7
West	14,745	63,406	14,566	92,717	18.3
South and West	50,074	230,120	48,367	328,561	62.0
U.S. Total	80,790	372,385	77,603	530,778	100.0

SOURCE: U.S. Department of Agriculture, Farmers Home Administration, FmHA
Instruction 1940-L Exhibit A (Washington, D.C., undated), Attachment
4, pp.7-10.

Farmers Home Administration Housing Program Funding Allocations Fiscal 1988
(in thousands of dollars)

Region and State	Section 502 Rural Housing Loans	Section 504 Housing Repair Loans	Section 504 Housing Repair Grants	Section 515 Rural Rental Housing	Section 515	Section 533	State Total	Percent of U.S. Total
					Rental Assistance New Construction	Housing Preservation Grant		
New England								
Connecticut	8,172	50	69	2,491	40	161	10,983	0.8
Maine	11,141	99	113	5,027	80	223	16,683	1.1
Massachusetts	13,528	96	130	4,628	74	213	18,769	1.3
New Hampshire	6,828	51	63	2,500	40	161	9,643	0.7
Rhode Island	1,710	12	15	1,100	20	114	2,971	0.2
Vermont	5,340	41	50	2,168	35	153	7,787	0.5
Total	46,819	349	440	17,914	289	1,025	66,836	4.5
Mid-Atlantic								
Delaware	2,692	22	26	1,143	20	128	4,031	0.3
Maryland	12,601	106	118	5,058	80	224	18,187	1.2
New Jersey	10,829	71	99	3,562	57	187	14,805	1.0
New York	51,757	281	360	14,394	229	452	67,473	5.0
Pennsylvania	53,464	412	525	20,011	318	589	75,319	5.2
Total	131,343	892	1,128	44,168	704	1,580	179,815	12.7
Midwest								
Illinois	32,859	268	340	12,790	204	412	46,873	3.2
Indiana	30,447	239	284	11,726	187	386	43,269	2.9
Iowa	19,629	154	210	7,805	124	291	28,213	1.9
Michigan	38,494	301	357	14,987	238	466	54,843	3.7
Minnesota	22,434	193	240	9,642	153	336	32,998	2.2
Ohio	44,869	367	426	18,007	287	540	64,496	4.3
Wisconsin	26,224	211	266	10,095	161	347	37,304	2.5
Total	214,956	1,733	2,123	85,052	1,354	2,778	307,996	20.7
South								
Alabama	29,504	309	325	16,278	259	498	47,173	2.8
Arkansas	22,024	226	254	12,178	194	397	35,273	2.1
District of Columbia	NA	NA	NA	NA	NA	NA	NA	NA
Florida	28,019	246	318	12,991	207	417	42,198	2.7
Georgia	38,024	384	400	20,257	322	595	59,982	3.7
Kentucky	34,413	373	377	19,560	311	578	55,620	3.3
Louisiana	25,717	277	282	14,664	233	458	41,631	2.5
Mississippi	25,638	283	289	15,470	246	478	42,404	2.5
North Carolina	51,757	493	523	25,235	402	716	79,126	5.0
Oklahoma	18,835	180	213	9,230	147	325	28,930	1.8
South Carolina	26,239	266	269	13,813	220	437	41,244	2.5
Tennessee	32,578	325	348	3,334	271	516	37,372	3.1
Texas	57,898	589	652	29,276	466	815	89,696	5.6
Virginia	32,814	330	340	15,669	249	483	49,885	3.2
West Virginia	21,192	211	222	10,489	167	356	32,637	2.0
Total	444,652	4,492	4,812	218,452	3,694	7,069	683,171	42.9

Farmers Home Administration Housing Program Funding Allocations Fiscal 1988 (continued)
(in thousands of dollars)

State or Region	Section 502	Section 504	Section 504	Section 515	Section 515	Section 533	State	Percent
	Rural Housing Loans	Housing Repair Loans	Housing Repair Grants	Rural Rental Housing	Rental Assistance New Construction	Housing Preservation Grant	Total	of U.S. Total
West								
Alaska	4,056	52	42	2,160	34	153	6,497	0.4
Arizona	11,079	124	126	6,095	97	249	17,770	1.1
California	40,255	369	411	17,600	280	530	59,445	3.9
Colorado	9,656	80	88	4,024	64	198	14,110	0.9
Hawaii	3,679	42	40	1,850	29	145	5,785	0.4
Idaho	7,483	64	71	3,452	55	184	11,309	0.7
Kansas	14,692	117	161	5,835	93	243	21,141	1.4
Missouri	27,533	245	302	12,664	202	409	41,355	2.7
Montana	6,357	55	62	2,764	44	168	9,450	0.6
Nebraska	9,382	74	102	3,853	61	194	13,666	0.9
Nevada	2,252	19	21	1,100	20	121	3,533	0.2
New Mexico	9,151	105	99	5,415	86	232	15,088	0.9
North Dakota	5,314	44	56	2,442	39	160	8,055	0.5
Oregon	15,429	129	155	6,299	100	254	22,366	1.5
South Dakota	6,511	59	72	3,334	53	181	10,210	0.6
Utah	4,271	38	41	2,015	32	149	6,546	0.4
Washington	18,122	152	173	7,268	116	278	26,109	1.7
Wyoming	3,801	34	35	1,516	24	137	5,547	0.4
Total	199,023	1,802	2,057	89,686	1,429	3,985	297,982	19.2
Northeast	178,162	1,241	1,568	62,082	993	2,605	246,651	17.2
Midwest	214,956	1,733	2,123	85,052	1,354	2,778	307,996	20.7
Northeast and Midwest	393,118	2,974	3,691	147,134	2,347	5,383	554,647	37.9
South	444,652	4,492	4,812	218,452	3,694	7,069	683,171	42.9
West	199,023	1,802	2,057	89,686	1,429	3,985	297,982	19.2
South and West	643,675	6,294	6,869	308,138	5,123	11,054	981,153	62.1
U.S. Total	1,036,793	9,268	10,560	455,272	7,470	116,437	1,535,800	100.0

SOURCES: U.S. Department of Agriculture, Farmers Home Administration, State Distribution of Program Funds" (unpublished memorandum), Washington, D.C., February 9, 1988.

IDBs and Other Private Tax-Exempt Bonds: Activity By State¹
(in millions of dollars)

Region and State	1986					Volume Issued That Could Have Been Subject to 1987 Caps		Volume Caps		1986 as Percent of 1988 Limit
	Total	Percent Total	Non IDBs ²	IDB		1985 Volume	1984 Volume	1987 Cap	1988 Calculated ⁵ Limit	
				Small Issues ³	Other ⁴					
New England										
Connecticut	223	1.3	24	114	87	1,862	601	250	159	140
Maine	199	1.2	4	38	157	462	168	250	150	133
Massachusetts	420	2.4	49	136	234	1,863	1,107	437	292	144
New Hampshire	48	0.3	0	3	45	358	182	250	150	32
Rhode Island	49	0.3	3	46	0	187	518	250	150	33
Vermont	48	0.3	13	29	5	245	124	250	150	32
Total	987	5.8	93	366	528	4,977	2,700	1,687	1,051	94
Mid-Atlantic										
Delaware	152	0.9	5	140	7	439	474	250	150	101
Maryland	312	1.8	127	127	59	1,974	309	335	223	140
New Jersey	531	3.1	76	350	105	1,817	1,786	572	381	139
New York	1,515	8.8	815	628	81	3,407	2,574	1,333	889	170
Pennsylvania	1,397	8.1	324	573	501	3,097	2,741	892	594	235
Total	3,907	22.8	1,347	1,818	753	10,734	8,884	3,302	2,237	175
Midwest										
Illinois	623	3.6	179	280	165	4,524	2,302	867	578	108
Indiana	262	1.5	64	153	44	1,855	709	413	275	95
Iowa	99	0.6	26	72	2	449	451	250	150	66
Michigan	807	4.7	166	382	259	1,645	1,346	686	457	176
Minnesota	329	1.9	159	110	59	2,359	1,498	316	211	156
Ohio	729	4.3	275	392	62	1,538	1,162	806	538	136
Wisconsin	403	2.4	104	150	148	833	528	359	239	168
Total	3,252	19.0	973	1,539	739	13,203	7,996	3,697	2,448	133
South										
Alabama	290	1.7	15	217	59	964	649	304	203	143
Arkansas	39	0.2	0	36	3	484	239	250	150	26
District of Columbia	0	0.0	0	0	0	0	0	0	150	0
Florida	562	3.3	201	234	129	3,903	2,994	876	584	96
Georgia	720	4.2	166	445	109	2,171	1,595	458	305	236
Kentucky	305	1.8	6	159	141	1,000	690	280	186	164
Louisiana	158	0.9	16	99	44	1,293	1,157	338	225	70
Mississippi	306	1.8	160	43	102	1,141	470	250	150	204
North Carolina	168	1.0	66	54	48	876	522	475	317	53
Oklahoma	69	0.4	35	30	4	580	548	250	165	42
South Carolina	237	1.4	50	120	67	628	663	253	169	140
Tennessee	412	2.4	11	228	173	2,296	1,280	360	240	172
Texas	1,194	7.0	536	213	446	4,002	3,488	1,251	834	143
Virginia	523	3.0	165	301	56	2,123	2,103	434	289	181
West Virginia	96	0.6	16	72	7	352	281	250	150	64
Total	5,079	29.6	1,443	2,251	1,388	21,813	16,679	6,029	4,118	123

IDBs and Other Private Tax-Exempt Bonds: Activity By State¹
(in millions of dollars)

Region and State	1986					Volume Issued That Could Have Been Subject to 1987 Caps		Volume Caps		1986 as Percent of 1988 Limit
	Total	Percent Total	Non IDBs ²	IDB		1985 Volume	1984 Volume	1987 Cap	1988 Calculated ³ Limit	
				Small Issues ³	Other ⁴					
West										
Alaska	128	0.7	69	22	37	781	950	250	150	85
Arizona	183	1.1	19	52	112	1,515	966	250	166	110
California	1,675	9.8	649	179	847	13,656	5,420	2,024	1,349	124
Colorado	375	2.2	310	46	19	2,389	665	250	163	230
Hawaii	62	0.4	5	0	57	354	177	250	150	41
Idaho	14	0.1	5	9	0	77	124	250	150	9
Kansas	137	0.8	13	121	4	568	490	250	150	91
Missouri	504	2.9	198	161	145	1,543	905	380	253	199
Montana	101	0.6	28	4	70	249	222	250	150	67
Nebraska	136	0.8	108	28	0	516	470	250	150	91
Nevada	26	0.2	0	14	12	260	336	250	150	17
New Mexico	6	0.0	4	2	0	483	242	250	150	4
North Dakota	64	0.4	27	23	13	199	244	250	150	43
Oregon	45	0.3	15	30	0	1,544	539	250	150	30
South Dakota	70	0.4	13	58	0	271	291	250	150	47
Utah	94	0.5	12	73	9	437	512	250	150	63
Washington	297	1.7	144	52	100	693	572	335	223	133
Wyoming	6	0.0	3	2	0	115	130	250	150	4
Total	3,923	22.9	1,622	876	1,425	25,650	13,255	6,489	4,105	96
Northeast	4,894	28.5	1,440	2,184	1,281	15,711	11,584	5,069	3,288	149
Midwest	3,252	19.0	973	1,539	739	13,203	7,996	3,697	2,448	133
Northeast and Midwest	8,146	47.5	2,413	3,723	2,020	28,914	19,580	8,766	5,736	142
South	5,079	29.6	1,443	2,251	1,388	21,813	16,679	6,029	4,118	123
West	3,923	22.9	1,622	876	1,425	25,650	13,255	6,489	4,105	96
South and West	9,002	52.5	3,065	3,127	2,813	47,463	29,934	12,518	8,222	109
U.S. Total	17,148	100.0	5,478	6,850	4,833	76,377	49,514	21,284	13,958	123

¹ Figures may not add due to rounding.

² Student loan bonds (\$1.7 billion nationally); exempt entity bonds, principally hospitals and educational facilities (\$2.5 billion nationally); and mortgage subsidy bonds (\$1.3 billion nationally).

³ Includes IDBs for industrial parks.

⁴ For multifamily rental housing (\$1.5 billion nationally); airports and docks (\$0.5 billion); sewage and waste disposal (\$1.3 billion); pollution control (\$1.3 billion); sports and convention facilities (\$61 million); and miscellaneous (\$0.2 billion).

⁵ Calculated using 1986 population figures and statutory limitations of the greater of \$150 million or \$50 per person.

SOURCES: Staff calculations from Department of the Treasury, Office of Tax Analysis, preliminary unpublished data run, (Washington, D.C., February 22, 1988); and Public Securities Association, Report to Municipal Bond Issuers (New York, January 1988), attached table.

SECTION TWO: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

The administration's budget request for fiscal 1989 reflects its continued focus on developing civilian basic research for science and engineering. The president proposes to increase budget authority for General Science, Space and Technology programs (function 250) by 29 percent in fiscal 1989. This would result in an increase in budget authority for this function from \$10.7 billion in fiscal 1988 to \$13.9 billion in fiscal 1989.

Function 250 comprises three programs, the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and the Department of Energy's (DOE) general science programs. NASA would receive \$2.4 billion of the \$3.1 billion increase in budget authority proposed by the president for function 250, or about 77 percent of the increase.

A. Civilian vs. Military Research and Development

Although the budget proposal marks the first year the Reagan Administration has requested a large increase in civilian research and development (R&D), defense-related R&D still would receive a disproportionately high percentage of total federal R&D funding. In the president's fiscal 1989 budget proposal the Pentagon would receive two-thirds of the increase that is proposed for federal research and development funding. The budget request therefore maintains the same two-to-one ratio of military and civilian R&D funding levels as fiscal 1988.

This ratio contrasts with the balance in R&D funding in fiscal 1981, when there was an almost equal split between federal support for civilian and military research and development. In 1981, budget authority for military R&D was \$16.6 billion. By 1988, funding had more than doubled to \$36.7 billion. There is widespread concern that these huge increases in military research and development will provide little if any application to the civilian economy and that America's competitive position in the international marketplace is suffering as a consequence.

B. National Aeronautics and Space Administration (NASA)

The president's request for NASA includes \$10.6 billion in budget authority for space-related activities. This figure represents a 29 percent increase over fiscal 1988 levels. Space flight programs would receive \$6.4 billion, or 60 percent of the 1989 budget authority for NASA. This figure represents a 36 percent increase over fiscal 1988 funding levels. The president proposes that \$1 billion be spent to develop a manned space station, which may cost \$25 billion. Additionally, the administration proposes several new R&D initiatives, including an advanced solid rocket motor for the space shuttle, and a major space science project known as the Advanced X-ray Astrophysics Facility.

BUDGET SUMMARY
(in millions of dollars)

						Percent Change 1988-1989	
						Adjusted for Nominal Inflation	
Function		1981 Actual	1987 Actual	1988 Estimate	1989 Request		
General Science, Space, and Technology							
251	NSF ¹						
	Budget Authority	NA	1,639	1,733	2,066 ²	19.2	14.9
	Outlays	900	1,562	1,673	1,818	8.7	4.7
251	DOE General Science and Research Activities						
	Budget Authority	NA	702	804	1,197 ³	48.9	43.4
	Outlays	501	697	795	1,104	38.9	33.8
253	NASA Space Research and Technology						
254	Budget Authority	NA	10,198	8,203	10,616 ⁴	29.4	24.7
255	Outlays	4,798	6,957	8,435	10,181	20.7	16.3

¹ Includes both federal and trust funds.

² Assumes passage of additional authorizing legislation.

³ Includes \$365 million for general science and research activities, plus \$832 million in a new account called general science and basic research user facilities. This contains \$400 million for the initial construction of the Superconducting Super Collider (SSC).

⁴ Assumes passage of additional authorizing legislation.

Funding for NASA programs showed the greatest regional distortion in spending allocations for R&D in 1986. The Northeast-Midwest region received 28.5 percent of NASA R&D spending that year, a disproportionately low amount when compared to the region's portion of the country's population, 43 percent. The Mid-Atlantic states received the largest amount of funding within the region, 16.6 percent, led by Maryland, with 11 percent. New England received only 3.8 percent, and the Midwest received 8.1 percent of total NASA funding. Meanwhile, the South received 40.0 percent and the West 31.5 percent. In light of the fact that the greatest increase in civilian R&D funding is proposed for NASA programs, the distortion in regional spending must be addressed.

C. National Science Foundation (NSF)

The principal mission of NSF is to support basic research in all fields of science and engineering. The administration requests budget authority of \$2.1 billion for NSF, an increase of 19 percent over fiscal 1988 level. This increase reflects the president's commitment to double NSF's budget to \$3.2 billion by 1993. The request includes a one-time appropriation of \$150 million to establish 10 to 15 interdisciplinary basic Science and Technology Centers. These centers would be located on university campuses where students, research scientists, and engineers from academia, industry, and federal laboratories could work together to expedite the transfer of technology from laboratories to the marketplace. NSF also would receive more funds to improve the quality of pre-college science and math education.

The state-by-state table at the end of this section shows the percent distribution of federal obligations for R&D in fiscal 1986. Agencies listed were selected on the basis of their high level of R&D funding. The second table shows the corresponding dollar value of these federal obligations by state and by agency. Northeastern and midwestern states received 46.7 percent of federal spending for NSF programs in 1986, a proportionate amount of NSF funding when compared to the region's portion of the U.S. population. Within the region, the Mid-Atlantic states enjoyed the largest amount of this funding, 20.9 percent, compared with 10.9 percent for New England and 14.9 percent for the Midwest. New York received 9.5 percent of NSF funding, the largest recipient in the region for NSF-funded programs.

D. Department of Energy General Science Programs

The general science programs of the Department of Energy (DOE) support basic research in nuclear sciences and high energy physics. The president's budget proposal would increase support for these programs by 49 percent over the fiscal 1988 level, to \$1.2 billion. It would allocate over one-third (\$0.4 billion) of the general science program budget to construction of the Superconducting Super Collider (SSC). Fiscal 1989 would be the first year of funding for the eight-year, \$5.3 billion construction project. Annual operating budgets are estimated at about \$270 million after construction is completed. The budget projections assume that the host state and other nations would share costs of the SSC beginning in 1991.

**Percent Distribution of Federal Obligations for
Research and Development of Selected Agencies: Fiscal 1986**

Region and State	Department of Defense	Department of Energy	Department of Health and Human Services	National Aeronautics and Space Administration	National Science Foundation
New England					
Connecticut	1.0	0.3	2.2	1.9	0.9
Maine	*	*	0.2	*	0.3
Massachusetts	7.5	1.3	8.4	1.6	7.9
New Hampshire	0.3	*	0.3	0.2	0.6
Rhode Island	1.0	0.1	0.4	0.1	1.1
Vermont	*	0.1	0.3	*	0.1
Total	9.8	1.8	11.8	3.8	10.9
Mid-Atlantic					
Delaware	*	*	*	*	0.6
Maryland	7.6	0.9	22.4	11.0	2.3
New Jersey	4.3	2.1	0.8	3.1	4.4
New York	6.1	8.0	10.3	0.9	9.5
Pennsylvania	1.8	6.0	4.6	1.6	4.1
Total	19.8	17.0	38.1	16.6	20.9
Midwest					
Illinois	0.6	5.7	2.7	0.5	5.0
Indiana	0.6	0.3	0.8	0.2	2.3
Iowa	0.4	0.3	0.8	0.1	0.5
Michigan	0.7	0.5	2.0	0.4	2.9
Minnesota	1.1	0.1	1.9	0.2	0.9
Ohio	3.4	0.9	2.2	6.1	1.6
Wisconsin	*	0.2	1.5	0.6	1.7
Total	6.8	8.0	11.9	8.1	14.9
South					
Alabama	2.5	0.2	1.1	7.8	0.2
Arkansas	*	*	0.5	*	0.2
District of Columbia	5.0	1.8	1.9	4.1	12.3
Florida	2.9	0.3	1.1	10.2	1.6
Georgia	0.2	0.1	1.5	1.1	1.0
Kentucky	*	*	0.5	*	0.2
Louisiana	*	*	0.6	0.1	0.3
Mississippi	0.2	0.1	0.2	0.6	0.1
North Carolina	0.6	0.1	3.6	0.2	1.4
Oklahoma	0.1	0.1	0.2	0.1	0.2
South Carolina	*	1.5	0.3	*	0.4
Tennessee	0.7	5.4	1.3	0.3	0.6
Texas	4.0	0.4	3.7	8.0	2.7
Virginia	7.1	0.8	1.3	7.5	1.4
West Virginia	*	0.9	0.2	*	1.3
Total	23.3	11.7	18.0	40.0	23.9

Percent Distribution of Federal Obligations for Research
and Development of Selected Agencies: Fiscal 1986 (continued)

Region and State	Department of Defense	Department of Energy	Department of Health and Human Services	National Aeronautics and Space Administration	National Science Foundation
West					
Alaska	*	*	*	0.1	0.5
Arizona	0.9	*	0.6	0.5	2.9
California	26.0	21.7	11.7	26.4	14.2
Colorado	3.8	1.5	1.2	2.0	4.3
Hawaii	*	*	0.2	0.2	0.6
Idaho	*	5.2	*	*	*
Kansas	0.2	*	0.3	0.1	0.3
Missouri	1.6	0.1	1.7	0.2	0.6
Montana	*	*	0.1	*	0.1
Nebraska	*	*	0.2	*	0.3
Nevada	0.3	7.0	*	*	0.1
New Mexico	4.4	21.6	0.3	0.4	0.7
North Dakota	*	*	*	*	*
Oregon	*	0.2	0.8	0.1	1.1
South Dakota	*	*	*	*	0.1
Utah	0.5	0.2	0.7	0.7	0.9
Washington	2.2	3.8	2.3	0.8	2.0
Wyoming	*	*	*	*	0.1
Total	39.9	61.3	20.1	31.5	28.8
Northeast	29.6	18.8	49.9	20.4	31.8
Midwest	6.8	8.0	11.9	8.1	14.9
Northeast and Midwest	36.4	26.8	61.8	28.5	46.7
South	23.3	11.7	18.0	40.0	23.9
West	39.9	61.3	20.1	31.5	28.8
South and West	63.2	73.0	38.1	71.5	52.7
U.S. Total^{1,2}	99.6	99.8	99.9	100.0	99.4

*Less than 0.1 percent of U.S. total.

¹ Totals may not add due to rounding.

² U.S. totals do not include funds for Puerto Rico or the Territories.

SOURCE: National Science Foundation, Federal Funds for Research and Development, Surveys of Science Resources Series, Volume XXXVI (Washington, D.C., 1987).

Federal Obligations for Research and Development for Selected Agencies: Fiscal 1986
(in thousands of dollars)

Region and State	Department of Defense	Department of Energy	Department of Health and Human Services	National Aeronautics and Space Administration	National Science Foundation
New England					
Connecticut	343,399	14,363	121,547	62,921	12,829
Maine	14,203	125	9,755	486	4,053
Massachusetts	2,451,879	61,877	471,083	53,941	106,959
New Hampshire	98,135	853	16,714	5,519	8,487
Rhode Island	340,651	2,704	22,875	1,777	14,677
Vermont	10,322	5,200	17,939	1,429	1,355
Total	3,258,589	85,122	659,863	126,073	148,360
Mid-Atlantic					
Delaware	12,175	982	2,693	943	7,930
Maryland	2,508,380	41,032	1,262,286	374,437	30,757
New Jersey	1,396,016	99,521	45,835	106,700	58,922
New York	2,004,384	373,553	579,421	29,130	128,369
Pennsylvania	582,217	279,262	259,249	52,684	55,799
Total	6,503,172	794,350	2,149,484	563,894	281,777
Midwest					
Illinois	197,983	268,978	153,669	16,232	67,031
Indiana	184,546	16,207	44,429	5,861	30,672
Iowa	126,343	15,520	43,509	4,445	6,742
Michigan	245,844	21,981	111,183	15,132	38,719
Minnesota	346,463	4,717	105,772	7,031	12,706
Ohio	1,129,932	42,904	125,380	208,411	22,028
Wisconsin	5,490	11,382	83,967	19,904	22,796
Total	2,236,601	381,689	667,909	277,016	200,694
South					
Alabama	831,155	8,695	60,217	264,692	3,075
Arkansas	1,014	695	27,193	249	2,573
District of Columbia	1,629,079	82,046	108,664	138,637	166,431
Florida	943,011	15,955	61,265	346,701	21,476
Georgia	61,874	4,477	85,538	38,280	12,922
Kentucky	14,299	808	27,509	1,320	2,939
Louisiana	14,943	1,518	34,228	1,788	4,024
Mississippi	63,953	3,808	8,587	20,613	1,345
North Carolina	180,854	5,009	200,150	5,387	18,419
Oklahoma	16,957	4,297	13,626	5,089	3,364
South Carolina	9,957	71,885	17,768	404	5,692
Tennessee	220,581	254,356	73,483	10,380	7,885
Texas	1,308,259	19,344	209,634	271,944	37,079
Virginia	2,317,836	36,093	75,751	253,399	18,784
West Virginia	4,797	40,195	9,743	238	17,230
Total	7,618,569	549,181	1,013,356	1,359,121	323,238

**Federal Obligations for Research and Development
for Selected Agencies: Fiscal 1986 (continued)**
(in thousands of dollars)

Region and State	Department of Defense	Department of Energy	Department of Health and Human Services	National Aeronautics and Space Administration	National Science Foundation
West					
Alaska	10,107	1,379	442	2,247	6,347
Arizona	283,987	1,047	34,552	18,308	38,558
California	8,540,337	1,014,552	656,505	896,667	192,533
Colorado	1,249,244	71,672	65,675	68,837	57,654
Hawaii	11,496	1,490	9,410	5,405	8,302
Idaho	1,721	243,711	915	213	499
Kansas	75,976	1,639	16,195	2,199	4,234
Missouri	537,725	3,091	97,687	7,354	8,470
Montana	677	1,215	7,838	128	1,907
Nebraska	3,538	567	9,905	409	3,701
Nevada	110,140	329,033	2,683	1,209	1,751
New Mexico	1,433,751	1,011,497	16,899	14,477	9,792
North Dakota	172	446	874	0	389
Oregon	11,135	7,028	42,845	3,515	14,727
South Dakota	584	99	803	483	765
Utah	169,606	7,517	40,546	22,945	11,912
Washington	716,886	176,136	129,850	25,563	27,408
Wyoming	332	255	826	453	1,739
Total	13,157,414	2,872,374	1,134,450	1,070,412	390,688
Northeast	9,761,761	879,472	2,809,347	689,967	430,137
Midwest	2,236,601	381,689	667,909	277,016	200,694
Northeast and Midwest	11,998,362	1,261,161	3,477,256	966,983	630,831
South	7,618,569	549,181	1,013,356	1,359,121	323,238
West	13,157,414	2,872,374	1,134,450	1,070,412	390,688
South and West	20,775,983	3,421,555	2,147,806	2,429,533	713,926
U.S. Total	32,774,345	4,682,716	5,625,062	3,396,516	1,344,757
Percent Distribution					
By Agency	65.3	9.3	11.2	6.8	2.7

SOURCE: National Science Foundation, Federal Funds for Research and Development, Surveys of Science Resources Series, Volume XXXVI (Washington, D.C., 1987).



SECTION THREE: HUMAN RESOURCES

The president's budget for fiscal 1989 proposes increased spending for many human resources programs. In employment and training, the request calls for level funding of most programs and increased budget authority for a new dislocated workers program, as soon as legislation now in conference in Congress receives final approval. The budget proposes the elimination of Trade Adjustment Assistance and a reduction in funding for the Employment Service, in anticipation of passage of the new program. As in last year's budget request, the administration also proposes a redesign of the Summer Youth Employment and Training Program to give localities the option of using these funds year-round.

In education, the president's budget slates most programs for higher funding levels than last year. It calls for increases in adult literacy programs and in Chapter I and Chapter II compensatory programs, once Congress reauthorizes them. Higher education programs also fare well in the president's proposal. Education and training resources are particularly important to northeastern and midwestern states, whose history of investment in these programs has produced the economic asset of a skilled and adaptable work force.

In income support programs, the administration again proposes reforms in the nation's welfare system to provide more training and employment services to move people into jobs. According to the budget, the president will transmit a request for additional funding for these activities once Congress has passed a welfare reform program. In the meantime, in keeping with previous submissions, this year's budget requests no funding for the Work Incentive (WIN) program.

The president proposes spending \$5.7 billion for employment and training in fiscal 1989, including \$980 million for the new dislocated workers program. This figure is \$430 million above the level enacted for fiscal 1988 and \$1.3 billion above last year's presidential request. For education, the budget requests \$20.8 billion, which is \$904 million above the level appropriated for fiscal 1988 and \$6.9 billion above last year's request.

The budget also requests spending authority of \$24 billion for unemployment compensation, \$13.4 billion for food stamps (including aid to Puerto Rico), and \$10.4 billion for Aid to Families with Dependent Children (AFDC) and Child Support Enforcement (CSE). These three programs are entitlements and therefore are not subject to the domestic discretionary caps of the bipartisan budget agreement. The amount proposed for later transmittal once Congress has passed welfare reform is \$368 million.

A. Employment and Training

The president's budget for the core employment and training program for the disadvantaged--Title IIA of the Job Training Partnership Act (JTPA)--requests \$1.809 billion for the program year beginning July 1, 1989. This is the same level of funding enacted for the current fiscal year. Title IIA funds are distributed by formula to local areas nationwide, where their use is determined jointly by Private Industry Councils and local elected officials.

BUDGET SUMMARY
(in millions of dollars)

						Percent Change 1988-1989	
						Adjusted for Inflation	
Function		1981 Actual	1987 Actual	1988 Estimate	1989 Request	Nominal	
Employment and Training							
504	Total Employment and Training ¹						
	Budget Authority	NA ²	5,226	5,282	5,713	8.2	4.2
	Outlays	NA ²	5,084	5,221	5,211	-0.2	-3.8
504	Training for the Disadvantaged						
	Budget Authority	NA ²	1,840	1,809	1,809	0.0	-3.7
	Outlays	NA ²	1,854	1,890	1,893	0.2	-3.5
504	Summer Youth Employment						
	Budget Authority	839	750	718	718	0.0	-3.7
	Outlays	769	723	724	727	0.4	-3.3
504	Title III Assistance to Dislocated Workers						
	Budget Authority	NA ³	250	335	0 ⁴	-100.0	-100.0
	Outlays	NA ³	212	251	292	16.3	12.1
504	Job Corps						
	Budget Authority	561	656	716	711	-0.7	-4.3
	Outlays	540	628	641	674	5.1	1.3
504	Employment Service						
	Budget Authority	799	990	982	926	-5.7	-9.2
	Outlays	781	968	1,008	961	-4.7	-8.2
504	Work Incentive Program						
	Budget Authority	365	126	93	0 ⁵	-100.0	-100.0
	Outlays	381	137	95	6	-93.7	-93.9
Education							
500	Total Department of Education ¹						
	Budget Authority	14,800	19,361	19,872	23,870	20.1	15.7
	Outlays	15,900	16,571	18,487	22,392	21.1	16.7
501	Chapter I Education for Disadvantaged Children						
	Budget Authority	3,112	3,952	4,337	0 ⁶	-100.0	-100.0
	Outlays	3,354	3,210	3,841	3,810	-0.8	-4.4
501	Chapter II Block Grants and School Improvement						
	Budget Authority	614	939	1,040	30 ⁷	-97.1	-97.2
	Outlays	735	889	733	934	27.4	22.8

BUDGET SUMMARY (continued)
(in millions of dollars)

Function		1981 Actual	1987 Actual	1988 Estimate	1989 Request	Percent Change 1988-1989	
						Nominal	Adjusted for Inflation
501	Vocational and Adult Education						
	Budget Authority	782	995	1,013	888	-12.3	-15.5
	Outlays	NA	1,231	979	895	-8.6	-11.9
501	Special Education						
	Budget Authority	1,025	1,742	1,869	1,917	2.6	-1.2
	Outlays	1,035	1,339	1,801	1,864	3.5	-0.3
501	Bilingual Education						
	Budget Authority	161	173	192	15 ⁸	-92.2	-92.5
	Outlays	173	148	144	147	2.1	-1.7
501	Impact Aid						
	Budget Authority	662	718	708	592	-16.4	-19.4
	Outlays	697	704	756	632	-16.4	-19.5
502	Guaranteed Student Loans						
	Budget Authority	2,535	2,717	2,565	2,740	6.8	2.9
	Outlays	2,259	2,548	2,630	2,743	4.3	0.5
502	Student Financial Assistance						
	Budget Authority	NA	5,483	5,545	6,021	8.6	4.6
	Outlays	NA	4,780	5,319	5,774	8.6	4.6
Income Support							
603	Unemployment Compensation						
	Budget Authority	19,048	24,037	24,479	24,008 ⁹	-1.9	-5.5
	Outlays	19,664	17,080	15,764	16,375 ⁹	3.9	0.1
609	AFDC/CSE						
	Budget Authority	NA ¹⁰	10,461	11,125	10,355 ¹¹	-6.9	-10.3
	Outlays	NA ¹⁰	10,540	10,785	10,772	-0.1	-3.8
605	Food Stamps						
	Budget Authority	11,470	12,646	13,518	13,428 ¹²	-0.7	-4.3
	Outlays	11,253	12,407	13,426	13,412 ¹²	-0.1	-3.8

¹ Total includes budget requests proposed for later transmittal, as described in the following footnotes.

² Funding figures for 1981 are not comparable because of major changes in program design.

The predecessor CETA program had \$3.9 billion in budget authority in 1981, but included money for stipends, allowances, and wages in work experience programs.

³ The Title III program did not exist in 1981.

⁴ The administration is proposing a new dislocated worker program to be funded at \$980 million.

⁵ The administration is proposing a new welfare reform program to be funded at \$368 million.

⁶ The administration is proposing to transmit a request for an additional \$4.566 million once Chapter I is reauthorized.

⁷ The administration is proposing to transmit a request for an additional \$1.101 million once Chapter II and other programs are reauthorized.

⁸ The administration is proposing to transmit a request for an additional \$185 million once pending bilingual education legislation is enacted.

⁹ Funding figures assume a reduction of \$102 million pending passage of proposed legislation.

¹⁰ Funding figures for 1981 are not comparable because of changes in program design.

¹¹ The administration is proposing to transmit a request for additional budget authority of \$368 million once welfare reform is enacted.

¹² Figures include block grant aid to Puerto Rico.

The program provides a variety of job search, skill training, and basic education activities for youth and adults. States in the Northeast and Midwest currently receive approximately 42 percent of Title IIA funds; they have used them in programs to educate dropouts, train welfare recipients for employment, and find jobs for the unemployed. (See the table at the end of this section.)

For Title IIB--the JTPA summer jobs program for disadvantaged youth--the president's budget proposes \$718 million in fiscal 1989 for programs in the summer of 1990. This is the same level of funding already enacted for the summer of 1989, but it is \$32 million below the amount that will be available for the coming summer. Also, the budget promises new legislation to amend Title IIB to allow states and local areas to use these funds to operate a year-round program of remedial education and basic skills training, a subsidized summer jobs program (as they do now), or a mixture of both kinds of activities. The administration advanced the same proposal in last year's budget, but would have targeted the program to youth in families receiving Aid to Families with Dependent Children. Congress did not take up that proposal.

At present, the summer money can be spent for both jobs and remedial education. Also, youth receive education and training services under Title IIA, which is a year-round program. Even so, services for disadvantaged youth are very limited, given the severity of their educational and employment problems. The president's proposal attempts to address this situation by making summer funds more flexible. However, since federally supported summer jobs often are the only source of employment for disadvantaged youth, the exercise of the year-round option would reduce the number of jobs available for this population.

For JTPA's Title III--reemployment activities for dislocated workers--the administration's budget repeats last year's proposal for a new program design with increased funding, and the elimination of the Trade Adjustment Assistance (TAA) program. Both Title III and TAA have been of special interest to the Northeast-Midwest region where job losses in traditional industries, technological changes in the workplace, and the farm crisis have forced many persons with stable employment histories out of work. Title III has been important also because it has helped states create the capacity to respond to dislocation on an ongoing basis.

Under the administration's proposal, the existing JTPA Title III and TAA would be replaced by a single program of Worker Readjustment Assistance that would offer services ranging from short-term counseling and job-search assistance to more intensive activities such as basic education, literacy instruction, and job-skills training. The new program would provide no special unemployment benefits such as those offered by the present TAA program, but would rely on the unemployment insurance (UI) system to support workers while they receive services. This is the same approach to income maintenance currently used in Title III, where the experience has been that the duration of UI (generally 26 weeks) is often too short a time for addressing the substantial retraining needs of persons with obsolete skills.

The administration proposes total budget authority of \$980 million to serve dislocated workers in fiscal 1989. Of this amount, \$32 million is for residual TAA benefits and \$948 million is for the new program. No other new funds are requested for TAA. The net increase in funding for dislocated workers programs is \$475 million. The budget also requests that the \$287

million appropriated in fiscal 1988 for dislocated worker assistance under JTPA be made available for transition to the new program. Both the House and Senate have already approved a new dislocated workers' program as part of the omnibus trade package, now in conference.

In a related matter, the budget proposes to reduce the funding for the Employment Service from \$982 million in fiscal 1988 to \$926 million in fiscal 1989. According to the budget, this action will not result in a significant change in the level of assistance, on the assumption that many employment-related services will be available under the new dislocated workers' program. The budget also states that the administration plans to continue the consultative process it began last year on Employment Service reform. This has been a subject of great interest to the Northeast-Midwest Congressional and Senate Coalitions. Representatives Don Pease (D-OH) and William Clinger (R-PA) and Senators John Heinz (R-PA) and Daniel Patrick Moynihan (D-NY) have taken the lead in sponsoring legislation to increase the level of funding for testing, assessment, and counseling activities in the Employment Service as a first step toward improving the agency.

In other employment and training requests, the budget calls for \$711 million for the Job Corps. This residential training program for severely disadvantaged youth was slated for elimination or major reductions by the administration in former years, but Congress consistently rejected these attempts. As in previous years, the budget requests no funds for the Work Incentive (WIN) program, in the expectation that welfare reform will assume this program's functions. Here again, the Congress has continued support for the existing program, although it appears likely that WIN will be replaced this year. Finally, the budget assumes that the Targeted Jobs Tax Credit (TJTC) will be allowed to expire, as scheduled, on December 31, 1988. This program has received several extensions from Congress in previous expiration years.

B. Education

In keeping with rhetorical emphasis on the importance of education for maintaining U.S. competitiveness, the president's budget for fiscal 1989 calls for increased spending over fiscal 1988 levels in many education programs. This represents a significant departure from administration requests in previous years, in which proposed cuts in education were often severe and just as often rejected by Congress. The level of funding requested for fiscal 1989 is \$20.8 billion, \$6.9 billion more than last year's request, and \$904 million more than the level appropriated for the current fiscal year.

The president's budget proposes to fund Chapter I of the Education Consolidation and Improvement Act at \$4.6 billion for fiscal 1989, an increase of \$238 million over its current amount. Chapter I is the major federal program providing aid to localities for compensatory education for disadvantaged youngsters. The administration also proposes an increase in funding for Chapter II--the state block grant program--from \$478 million in the current fiscal year to \$540 million in fiscal 1989. Both of these programs are currently awaiting reauthorization in Congress. In the course of these reauthorization deliberations, Congress has called for an expansion of the National Assessment of Educational Progress (NAEP) to produce state-by-state data in this annual measure of the nation's educational achievement. The president's budget provides funding for this purpose, increasing NAEP budget

authority from \$5.1 million for the current fiscal year to \$7.6 million for fiscal 1989.

The budget proposes spending authority of \$150 million for adult education, an increase of \$26 million over the 1988 level. The budget envisions increases for this primary federal literacy effort to a level of \$200 million by 1993. The budget also proposes to maintain funding for vocational education at its present level of \$888 million. Last year the president's budget proposed the elimination of all federal funding for vocational education, on the dual basis that the programs had not proved effective and were adequately funded by the states. Congress rejected these arguments. This year the administration proposes to send legislation to Congress to improve program accountability.

A table at the end of this section shows state-by-state allocations of Chapter I, Chapter II, and vocational education funds, which are important sources of support for education in the Northeast-Midwest region.

In other elementary and secondary education programs, the president's budget calls for an increase in funds for education of the handicapped from \$1.869 billion in the current fiscal year to \$1.917 in fiscal 1989. Impact aid, however, would drop from \$708 million to \$592 million next year.

In the area of higher education, the president's budget generally calls for higher funding in fiscal 1989. The total request for higher education is \$9.6 billion, \$608 million above the level appropriated for fiscal 1988. This figure includes requested budget authority of \$2.7 billion for the Guaranteed Student Loan Program and \$6.0 billion for all other student aid programs targeted to low-income students. The remainder of the higher education budget is for programs aiding institutions.

In the Pell Grant program, which was slated for large reductions last year, the administration proposes an increase from the current level of \$4.2 billion to \$4.7 billion. The budget states that the administration will soon propose legislation to suspend temporarily the requirement that parents contribute a part of the value of non-liquid assets (such as home equity) to the cost of their children's education. The legislation also will seek to limit the eligibility for aid to those with a high school diploma. Current law extends eligibility to those who are judged by higher education institutions to be capable of "benefiting" from a postsecondary educational program, regardless of their secondary school completion status. The administration sought a similar change last year. A final budget item relating to the Pell Grant program concerns an expected shortfall in funds for this year. The administration proposes to address this problem by adding unspent prior-year funds to the present appropriation and by reducing current Pell Grant awards across the board by an amount now estimated at \$31 per student.

The budget proposes expansion of the Income-Contingent Loan Program, newly enacted in 1986, from its start-up level of \$4.3 million to \$50 million in fiscal 1989. While substantial, this increase is significantly less than the \$600 million envisioned for this program in last year's budget. Because of the build-up, however, the budget requests no funds for Perkins Loans or State Student Incentive Grants. Last year's budget also failed to include funds for these programs. Two other programs for which no funds were requested last year are targeted for reforms this year: the budget states that the administration

will propose legislation to "improve educational quality and institutional accountability" in the Work-Study and Supplemental Educational Opportunity Grant programs by linking institutions' funding to the meeting of performance objectives. The budget does not provide details on what the new requirements will entail.

Finally, the president's budget states that the administration will submit a legislative proposal to create a college saving bond program to help lower- and middle-income families save for the rising costs of college education. If approved by Congress, this tax expenditure item would total \$10 million in fiscal 1989.

C. Unemployment Insurance

The president's budget requests spending authority of \$24 billion for the unemployment insurance (UI) program in fiscal 1989, down from \$24.5 billion in the current year. Total outlays are estimated at \$16.4 billion for fiscal 1989, up from \$15.8 billion this year. The projected increase in outlays is attributed to rises in weekly benefit amounts, and to an increase in the number of workers who will receive benefits from an average of 1.9 million workers per week in 1988 to 2.0 million per week in 1989. The UI program is an important source of income support for the unemployed in the Northeast-Midwest region, where workers received \$7.26 billion in benefits (47 percent of the national total) between July 1986 and June 1987. (See the table at the end of this section.)

The Northeast-Midwest Congressional and Senate Coalitions have sought ways to shift the UI system from a passive income-maintenance program to a positive worker-adjustment strategy. One step in this direction is to make it easier for UI recipients to enroll in retraining programs. Legislation offered on behalf of the Coalitions by Representatives Don Pease (D-OH) and William Clinger (R-PA) and by Senators John Heinz (R-PA) and Daniel Patrick Moynihan (D-NY) would clarify responsibilities in the states for deciding which training programs UI recipients could enroll in, and which UI recipients would be allowed to enroll. The legislation also would offer incentives to the states to enroll more UI recipients in training by allowing the state to count UI payments made to training program participants toward interest owed by the state on UI loans from the federal government. In another UI matter, this year's budget makes no mention of devolution of greater administrative responsibility for UI to the states, a prominent feature of budget submissions in the last two years.

D. Family Assistance

The president's budget estimates that federal grants to states for Aid to Families with Dependent Children (AFDC) and Child Support Enforcement (CSE) will total \$10.8 billion in fiscal 1989, the same figure as in fiscal 1988. About 3.8 million families are expected to receive AFDC next year, the same number as this year, and child support collections will be made for about 0.9 million of these.

The AFDC program reimburses states for approximately half of the cash benefits paid to low-income families with dependent children who are deprived

of parental support due to death, disability, absence of a parent, or, at state option, unemployment of the primary wage earner (AFDC-U). The CSE program supports activities to locate absent parents, establish paternity, and promulgate and enforce child support orders. Collections on behalf of AFDC recipients, who assign their support rights to the government, are divided among the recipients, the states, and the federal government--which offsets AFDC benefit costs with its share. These programs are important to the Northeast-Midwest region because of its higher overall AFDC needs standards and payment levels, and its greater reliance on AFDC over food stamps as a method of family support. (See the tables at the end of this section.)

The president's budget reiterates the administration's support for welfare reform as outlined in the AFDC Employment and Training Reorganization Act of 1987. Under this proposal, teenage AFDC recipients would be encouraged to remain in or return to school, and older recipients would participate in a variety of employment and training activities. States would be required to enroll increasing percentages of recipients in these activities until full coverage is reached in nine years. The legislation also includes demonstration authority under which states could receive waivers in a range of current programs to test, at no increased cost, alternative methods of helping low-income people achieve financial independence. The budget also repeats last year's proposal that minor mothers be required to live in their parents' home in order to be eligible for AFDC.

The budget proposes changes in child support enforcement to require states to establish mandatory child support guidelines and employers to withhold automatically court-ordered amounts for child support. States also would be required to improve their procedures for establishing paternity and for enforcing interstate child support orders.

To fund welfare reform, the administration will propose an increase in budget authority of \$368 million for fiscal 1989. The House of Representatives already has passed a more comprehensive version of welfare reform, and Senate action is expected soon on a proposal sponsored by Sen. Daniel Patrick Moynihan (D-NY).

For the food stamp program, the budget assumes that outlays will total \$12.5 billion in fiscal 1989, with 18.8 million people benefiting each month. Under this program, monthly allotments of stamps to eligible households, based on income and household size, are entirely federally funded, while administrative costs are shared by the federal government and the states. Unlike the AFDC program, where states are fully liable for erroneous payments above a 3 percent level, under the food stamp program states are liable for only a fraction of erroneous costs above a 5 percent level. Last year the administration proposed a change to full state liability; this year the budget states that the Department of Agriculture will continue its effort to collect outstanding state liabilities. This activity is expected to retrieve \$162 million from the states in 1988. These differences in cost-sharing arrangements and payback liabilities between the AFDC and food stamp programs are important to the Northeast and Midwest because states in this region use AFDC to a greater extent than food stamps to meet the income needs of the poor. (See the tables at the end of this section.)

Job Training Partnership Act: Program Year 1987 Allotments¹
(in thousands of dollars)

Region and State	1987 State Allotments			Wagner-Peyser Employment Service
	Title IIA Training for Disadvantaged	Title IIB Summer Youth	Title III Dislocated Workers	
New England				
Connecticut	12,083	6,540	843	8,468
Maine	6,081	2,476	420	3,992
Massachusetts	25,732	13,607	1,336	14,673
New Hampshire	4,588	1,558	174	2,555
Rhode Island	5,550	2,384	230	2,747
Vermont	4,588	1,558	138	2,419
Total	58,622	28,123	3,141	34,854
Mid-Atlantic				
Delaware	4,588	1,558	180	2,070
Maryland	19,408	9,252	1,112	11,729
New Jersey	37,107	17,661	3,046	19,963
New York	120,132	40,358	9,613	57,050
Pennsylvania	90,851	29,351	7,932	31,864
Total	272,086	98,180	21,883	122,676
Midwest				
Illinois	105,554	34,163	10,315	34,098
Indiana	41,083	14,900	3,696	15,617
Iowa	21,868	7,116	2,122	9,545
Michigan	89,100	28,821	8,683	27,464
Minnesota	23,755	7,823	2,010	11,680
Ohio	94,602	30,647	9,617	31,174
Wisconsin	32,688	10,666	3,151	13,589
Total	408,650	134,136	39,594	143,167
South				
Alabama	41,401	13,001	3,284	12,061
Arkansas	21,789	7,143	1,523	7,442
District of Columbia	6,071	5,419	450	5,537
Florida	60,379	20,214	4,146	29,691
Georgia	37,852	12,541	2,465	16,158
Kentucky	39,581	12,878	3,398	10,557
Louisiana	59,970	19,338	5,476	14,483
Mississippi	31,642	10,316	2,596	8,226
North Carolina	35,016	11,922	2,096	16,627
Oklahoma	23,305	8,261	2,200	13,044
South Carolina	23,829	7,858	1,814	8,732
Tennessee	40,580	13,287	3,231	13,664
Texas	133,423	43,440	10,952	50,245
Virginia	28,879	10,338	1,897	14,791
West Virginia	23,007	7,108	2,304	5,910
Total	606,724	203,064	47,832	227,168

**Job Training Partnership Act: Program
Year 1987 Allotments¹ (continued)
(in thousands of dollars)**

Region and State	1987 State Allotments			Wagner-Peyser Employment Service
	Title IIA Training for Disadvantaged	Title IIB Summer Youth	Title III Dislocated Workers	
West				
Alaska	5,465	1,761	497	8,057
Arizona	21,040	6,737	1,476	8,938
California	187,764	61,653	14,733	74,386
Colorado	20,405	6,691	1,664	9,773
Hawaii	5,926	1,974	349	2,963
Idaho	8,826	2,882	683	6,713
Kansas	10,437	3,622	888	6,421
Missouri	30,879	11,247	2,533	13,682
Montana	6,974	2,286	577	5,486
Nebraska	8,046	2,661	648	6,593
Nevada	7,175	2,327	662	5,333
New Mexico	14,630	4,784	1,167	6,156
North Dakota	4,588	1,558	310	5,586
Oregon	25,322	8,220	2,410	9,130
South Dakota	4,588	1,558	197	5,163
Utah	8,539	2,642	566	11,292
Washington	35,735	11,175	2,983	13,018
Wyoming	4,588	1,558	387	4,006
Total	410,927	135,336	32,730	202,696
Northeast	330,708	126,303	25,024	157,530
Midwest	408,650	134,136	39,594	143,167
Northeast and Midwest	739,358	260,439	64,618	300,697
South	606,724	203,064	47,832	227,168
West	410,927	135,336	32,730	202,696
South and West	1,017,651	338,400	80,562	429,864
U.S. Total	1,757,009	598,839	145,180	730,561

¹Program Year 1987 runs from July 1, 1987 to June 30, 1988.

SOURCES: Staff calculations from U.S. Department of Labor, Employment and Training Administration, Office of Financial Control and Management Systems, "PY 1986 JTPA Title II-A Allotments to States," "PY 1986 JTPA Title III Dislocated Worker Program Allotments," and "PY 1986 Title II-B Allotments to States," January 5, 1987; and "Revised Final PY 1986 Wagner-Peyser Allotments to States," April 20, 1987.

Selected Education Programs:
Preliminary Estimates for Fiscal 1988
(in thousands of dollars)

Region and State	Chapter I	Chapter II	Vocational Education
New England			
Connecticut	47,894	5,577	8,756
Maine	22,068	2,368	4,698
Massachusetts	107,624	9,846	18,345
New Hampshire	10,055	2,368	4,302
Rhode Island	15,591	2,368	4,302
Vermont	11,300	2,368	4,265
Total	214,532	24,895	44,668
Mid-Atlantic			
Delaware	14,754	2,368	4,260
Maryland	69,619	7,963	13,811
New Jersey	135,222	13,561	20,536
New York	439,658	32,055	54,130
Pennsylvania	212,894	21,111	40,698
Total	872,147	77,058	133,435
Midwest			
Illinois	202,444	22,068	36,080
Indiana	65,474	11,004	20,932
Iowa	33,020	5,557	10,318
Michigan	168,031	18,383	33,043
Minnesota	48,941	7,933	14,239
Ohio	146,023	21,081	38,385
Wisconsin	62,896	9,232	17,314
Total	726,829	95,258	170,311
South			
Alabama	80,321	8,205	16,518
Arkansas	52,307	4,752	9,418
District of Columbia	20,982	2,368	4,253
Florida	193,865	18,141	34,154
Georgia	107,123	12,323	22,863
Kentucky	72,751	7,551	15,290
Louisiana	101,479	9,463	18,762
Mississippi	75,144	5,859	11,130
North Carolina	97,262	12,000	25,077
Oklahoma	42,597	6,322	12,171
South Carolina	62,061	6,816	14,105
Tennessee	83,500	9,282	18,966
Texas	313,815	33,826	57,263
Virginia	79,198	10,359	19,205
West Virginia	37,112	3,906	7,766
Total	1,419,517	151,173	286,941

Selected Education Programs:
Preliminary Estimates for Fiscal 1988 (continued)
(in thousands of dollars)

Region and State	Chapter I	Chapter II	Vocational Education
West			
Alaska	13,598	2,368	3,596
Arizona	45,436	6,091	11,269
California	463,664	47,871	71,767
Colorado	41,787	5,980	10,060
Hawaii	12,443	2,368	4,302
Idaho	14,886	2,368	4,302
Kansas	31,555	4,540	7,824
Missouri	64,932	9,423	17,882
Montana	13,194	2,368	4,302
Nebraska	20,039	3,050	5,563
Nevada	8,924	2,368	4,289
New Mexico	30,445	3,060	6,020
North Dakota	9,746	2,368	4,285
Oregon	43,556	4,993	9,209
South Dakota	11,468	2,368	4,298
Utah	15,022	4,228	6,575
Washington	60,341	8,185	13,935
Wyoming	6,372	2,368	4,216
Total	907,408	116,365	193,694
Northeast	1,086,679	101,953	178,103
Midwest	726,829	95,258	170,311
Northeast and Midwest	1,813,508	197,211	348,414
South	1,419,517	151,173	286,941
West	907,408	116,365	193,694
South and West	2,326,925	267,538	480,635
U.S. Total	4,140,433	464,749	829,049

SOURCE: Staff calculations from U.S. Department of Education, unpublished data, preliminary estimates, January 1988.

Unemployment Compensation: July 1986-June 1987
(in millions of dollars)

Region and State	Regular Benefits	Percent of National Total	Revenue	Interest- Free Advances	Interest- Bearing Advances
New England					
Connecticut	172.9	1.12	228.0	0.0	0.0
Maine	63.5	0.41	75.6	0.0	0.0
Massachusetts	439.6	2.85	431.4	0.0	0.0
New Hampshire	15.0	0.10	25.1	0.0	0.0
Rhode Island	71.4	0.46	127.2	0.0	0.0
Vermont	26.1	0.17	60.7	0.0	0.0
Total	788.5	5.10	948.0	0.0	0.0
Mid-Atlantic					
Delaware	34.7	0.22	61.9	0.0	0.0
Maryland	204.8	1.33	224.7	0.0	0.0
New Jersey	604.6	3.91	1,014.5	0.0	0.0
New York	1,175.3	7.61	1,451.7	0.0	0.0
Pennsylvania	1,040.8	6.74	1,441.8	604.9	0.0
Total	3,060.2	19.81	4,194.6	604.9	0.0
Midwest					
Illinois	873.4	5.65	1,278.3	583.6	0.0
Indiana	182.5	1.18	184.0	0.0	0.0
Iowa	152.6	0.99	246.6	0.0	0.0
Michigan	832.5	5.39	1,251.4	1,120.7	0.0
Minnesota	326.2	2.11	387.2	0.0	0.0
Ohio	696.8	4.51	980.9	214.3	0.0
Wisconsin	346.4	2.24	663.6	0.0	0.0
Total	3,410.4	22.07	4,992.0	1,918.6	0.0
South					
Alabama	183.2	1.19	184.7	0.0	0.0
Arkansas	135.3	0.88	122.4	0.0	0.0
District of Columbia	69.6	0.45	81.7	0.0	0.0
Florida	296.7	1.92	312.5	0.0	0.0
Georgia	245.6	1.59	281.0	0.0	0.0
Kentucky	159.5	1.03	232.5	0.0	0.0
Louisiana ¹	524.1	3.39	327.2	0.0	776.0
Mississippi	115.6	0.75	79.6	0.0	0.0
North Carolina	229.6	1.49	298.4	0.0	0.0
Oklahoma	205.5	1.33	179.9	0.0	0.0
South Carolina	100.5	0.65	154.0	0.0	0.0
Tennessee	171.3	1.11	196.8	0.0	0.0
Texas	1,323.1	8.56	891.6	0.0	409.1
Virginia	135.6	0.88	177.5	0.0	0.0
West Virginia	143.0	0.93	147.2	4.7	223.0
Total	4,038.2	26.14	3,667.0	4.7	1,408.1

Unemployment Compensation: July 1986-June 1987 (continued)
(in millions of dollars)

Region and State	Regular Benefits	Percent of National Total	Revenue	Interest- Free Advances	Interest- Bearing Advances
West					
Alaska ¹	134.1	0.87	94.6	0.0	0.0
Arizona	122.2	0.79	125.8	0.0	0.0
California ¹	2,029.2	13.13	1,922.4	0.0	0.0
Colorado	237.4	1.54	203.5	0.0	0.0
Hawaii ¹	47.1	0.30	76.1	0.0	0.0
Idaho	75.8	0.49	87.0	0.0	0.0
Kansas	170.3	1.10	158.3	0.0	0.0
Missouri	231.9	1.50	258.5	0.0	0.0
Montana	50.5	0.33	61.8	0.0	0.0
Nebraska	54.8	0.35	58.1	0.0	0.0
Nevada	71.6	0.46	78.9	0.0	0.0
New Mexico	85.2	0.55	71.2	0.0	0.0
North Dakota	44.5	0.29	48.8	0.0	5.4
Oregon	240.5	1.56	300.4	0.0	0.0
South Dakota	12.1	0.08	15.6	0.0	0.0
Utah	103.1	0.67	81.7	0.0	0.0
Washington	375.0	2.43	573.1	0.0	0.0
Wyoming ¹	66.9	0.43	38.2	0.0	0.0
Total	4,152.2	26.88	4,254.0	0.0	5.4
Northeast	3,848.7	24.91	5,142.6	604.9	0.0
Midwest	3,410.4	22.07	4,992.0	1,918.6	0.0
Northeast and Midwest	7,259.1	46.99	10,134.6	2,523.5	0.0
South	4,038.2	26.14	3,667.0	4.7	1,408.1
West	4,152.2	26.88	4,254.0	0.0	5.4
South and West	8,190.4	53.01	7,921.0	4.7	1,413.5
U.S. Total²	15,449.5	100.00	18,055.6	2,528.2	1,413.5

¹Extended Benefits were paid also, as follows: Alaska--\$20.2 million; California--\$1.0 million; Idaho--\$4.3 million; Louisiana--\$123.4 million; and Wyoming--\$4.1 million.

²U.S. total does not include Puerto Rico or the Territories.

SOURCES: Staff calculations from U.S. Department of Labor, Unemployment Insurance Service, Quarterly Unemployment Insurance Compilation and Characteristics: Third Quarter FY 87, Vol. 4.3 (Washington, D.C., September 1987); and Division of State Program Management, Title XII Advances and Repayments as of June 30, 1987 (Washington, D.C., August 1987).

Duration of Unemployment: 1986

Region and State	Total Unemployed (in thousands)	less Than	5-14	15 Weeks	27 Weeks
		5 Weeks	Weeks	and Over	and Over
(in percent)					
New England					
Connecticut	66	46.9	29.6	23.5	13.6
Maine	30	45.6	33.9	20.5	7.7
Massachusetts	117	49.8	29.3	20.9	9.9
New Hampshire	16	54.2	27.5	18.2	4.9
Rhode Island	21	55.4	31.2	13.5	3.2
Vermont	14	48.2	30.5	21.3	9.9
Total/Average	264	50.0	30.3	19.7	8.2
Mid-Atlantic					
Delaware	14	46.1	32.6	21.3	8.3
Maryland	105	45.9	30.7	23.4	11.7
New Jersey	196	40.4	32.8	26.7	11.5
New York	526	37.8	32.2	30.0	15.7
Pennsylvania	386	39.9	29.1	31.0	17.1
Total/Average	1,227	42.0	31.5	26.5	12.9
Midwest					
Illinois	461	38.4	29.7	31.9	18.8
Indiana	185	41.3	30.4	28.3	16.0
Iowa	100	32.7	28.2	39.2	22.1
Michigan	385	40.1	28.9	30.9	19.2
Minnesota	118	45.4	29.1	25.5	12.6
Ohio	426	34.0	28.0	38.0	24.0
Wisconsin	169	37.8	33.3	28.9	15.9
Total/Average	1,844	38.5	29.7	31.8	18.4
South					
Alabama	185	40.7	31.9	27.4	15.9
Arkansas	94	43.7	32.2	24.1	11.0
District of Columbia	25	40.9	31.9	27.1	12.5
Florida	320	53.2	29.3	17.5	7.7
Georgia	178	50.3	30.4	19.3	10.2
Kentucky	156	33.5	35.6	30.9	18.1
Louisiana	261	32.0	33.2	34.8	18.6
Mississippi	136	43.6	30.2	26.2	13.9
North Carolina	170	50.0	29.8	20.2	10.1
Oklahoma	131	35.9	31.1	32.9	15.8
South Carolina	100	39.2	30.7	30.1	18.9
Tennessee	185	41.9	33.9	24.1	12.1
Texas	726	44.4	31.9	23.7	11.5
Virginia	145	53.8	27.8	18.4	8.4
West Virginia	88	31.7	22.8	45.5	31.9
Total/Average	2,900	42.3	30.8	26.8	14.4

Duration of Unemployment: 1986 (continued)

Region and State	Total Unemployed (in thousands)	less Than	5-14	15 Weeks	27 Weeks
		5 Weeks	Weeks	and Over	and Over
(in percent)					
West					
Alaska	28	41.6	29.9	28.5	14.2
Arizona	110	49.0	30.6	20.5	8.9
California	892	45.2	32.2	22.6	11.0
Colorado	126	40.6	34.3	25.1	11.5
Hawaii	24	38.5	33.8	27.7	17.0
Idaho	41	42.3	34.7	23.0	8.1
Kansas	67	39.7	32.7	27.6	12.3
Missouri	154	42.8	31.5	25.6	13.9
Montana	33	37.7	29.6	32.6	16.3
Nebraska	40	37.6	32.8	29.6	15.8
Nevada	32	48.3	32.6	19.0	7.7
New Mexico	62	44.3	31.2	24.5	12.5
North Dakota	21	45.0	32.9	22.1	10.5
Oregon	114	41.3	31.5	27.2	14.5
South Dakota	16	38.9	34.1	27.0	11.7
Utah	45	45.9	32.2	21.9	10.7
Washington	179	40.0	33.4	26.6	13.5
Wyoming	22	38.4	35.5	26.1	12.2
Total/Average	2,006	42.1	32.5	25.4	12.4
Northeast					
Northeast	1,491	46.0	30.9	23.1	10.6
Midwest					
Midwest	1,844	38.5	29.7	31.8	18.4
Northeast and Midwest	3,335	42.3	30.3	27.5	14.5
South					
South	2,900	42.3	30.8	26.8	14.4
West					
West	2,006	42.1	32.5	25.4	12.4
South and West	4,906	42.2	31.7	26.1	13.4
U.S. Total/Average					
U.S. Total/Average	8,241	42.3	31.0	26.8	14.0

SOURCE: Staff calculations from U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings (Washington, D.C., 1987).

Aid to Families with Dependent Children: Fiscal 1987 (Preliminary Data)

Region and State	Total Dollars (in thousands)	Federal Match Rate	Federal Share (in thousands)	Average Monthly Recipients	Average Payment per Person
New England					
Connecticut	220,998	0.5000	110,499	111,939	165
Maine	82,422	0.6886	56,756	55,590	124
Massachusetts	515,304	0.5000	257,652	235,047	183
New Hampshire	18,076	0.5492	9,927	11,318	133
Rhode Island	80,882	0.5633	45,561	43,556	155
Vermont	41,198	0.6737	27,755	21,653	159
Total/Average	958,880	0.5791	508,150	479,103	153
Mid-Atlantic					
Delaware	24,243	0.5000	12,122	20,634	98
Maryland	250,274	0.5000	125,137	182,784	114
New Jersey	486,749	0.5000	243,374	338,547	120
New York	2,097,858	0.5000	1,048,929	1,062,379	165
Pennsylvania	750,937	0.5728	430,137	562,769	111
Total/Average	3,610,061	0.5146	1,859,699	2,167,113	122
Midwest					
Illinois	872,940	0.5000	436,470	720,848	101
Indiana	146,207	0.6292	91,993	152,044	80
Iowa	166,388	0.6039	100,482	114,711	121
Michigan	1,201,012	0.5688	683,136	652,076	153
Minnesota	334,355	0.5341	178,579	162,355	172
Ohio	810,581	0.5830	472,569	667,447	101
Wisconsin	568,704	0.5758	327,460	292,692	162
Total/Average	4,100,187	0.5707	2,290,689	2,762,173	127
South					
Alabama	64,798	0.7241	46,920	137,427	39
Arkansas	49,788	0.7402	36,853	66,831	62
District of Columbia	77,693	0.5000	38,846	52,883	122
Florida	291,665	0.5616	163,799	290,952	84
Georgia	243,846	0.6605	161,061	246,270	83
Kentucky	137,625	0.7075	97,369	159,370	72
Louisiana	172,751	0.6577	113,618	259,883	55
Mississippi	80,746	0.7850	63,386	174,578	39
North Carolina	191,025	0.6918	132,151	175,310	91
Oklahoma	111,499	0.5986	66,743	96,631	96
South Carolina	102,667	0.7270	74,639	129,261	66
Tennessee	116,956	0.7026	82,173	179,765	54
Texas	319,489	0.5516	176,230	473,369	56
Virginia	173,324	0.5314	92,105	149,525	97
West Virginia	109,899	0.7259	79,776	114,552	80
Total/Average	2,243,771	0.6577	1,425,669	2,706,607	73

Aid to Families with Dependent Children: Fiscal 1987 (Preliminary Data)
(continued)

Region and State	Total Dollars (in thousands)	Federal Match Rate	Federal Share (in thousands)	Average Monthly Recipients	Average Payment per Person
West					
Alaska	51,037	0.5000	25,519	18,617	228
Arizona	93,857	0.6228	58,454	84,626	92
California	3,880,497	0.5000	1,940,248	1,702,743	190
Colorado	117,483	0.5000	58,742	90,417	108
Hawaii	68,406	0.5129	35,086	42,972	133
Idaho	20,159	0.7108	14,329	17,602	95
Kansas	96,397	0.5139	49,539	73,171	110
Missouri	212,719	0.6062	128,950	203,165	87
Montana	40,404	0.6744	27,248	27,921	121
Nebraska	60,425	0.5806	35,082	46,880	107
Nevada	16,258	0.5000	8,129	16,613	82
New Mexico	55,854	0.6968	38,919	56,513	82
North Dakota	20,916	0.5641	11,799	13,989	125
Oregon	119,068	0.6247	74,381	81,585	122
South Dakota	21,238	0.6782	14,404	18,694	95
Utah	60,512	0.7321	44,301	43,315	116
Washington	399,482	0.5252	209,808	211,734	157
Wyoming	18,063	0.5420	9,790	11,658	129
Total/Average	5,352,775	0.5880	2,784,728	2,762,215	121
Northeast	4,568,941	0.5469	2,367,849	2,646,216	137
Midwest	4,100,187	0.5707	2,290,689	2,762,173	127
Northeast and Midwest	8,669,128	0.5588	4,658,538	5,408,389	132
South	2,243,771	0.6577	1,425,669	2,706,607	73
West	5,352,775	0.5880	2,784,728	2,762,215	121
South and West	7,596,546	0.6229	4,210,397	5,468,822	97
U.S. Total/Average	16,265,674	0.5909	8,868,935	10,877,211	115

SOURCE: Staff calculations from Department of Health and Human Services, Family Support Administration, unpublished data, 1988.

**Spending and Participation in
the Food Stamp Program: Fiscal 1987**

Region and State	Dollar Value of Stamps Issued (in thousands)	Percent of Population Participating
New England		
Connecticut	48,249	3.64
Maine	49,639	8.48
Massachusetts	139,372	5.23
New Hampshire	9,956	1.93
Rhode Island	30,973	6.24
Vermont	16,876	6.69
Total/Average	295,097	5.37
Mid-Atlantic		
Delaware	16,514	4.65
Maryland	159,188	5.68
New Jersey	220,640	5.04
New York	896,324	9.33
Pennsylvania	524,243	8.22
Total/Average	1,816,909	6.58
Midwest		
Illinois	702,547	9.34
Indiana	200,156	6.13
Iowa	106,709	7.10
Michigan	472,805	9.71
Minnesota	107,354	5.54
Ohio	690,597	10.27
Wisconsin	146,244	7.25
Total/Average	2,426,412	7.91
South		
Alabama	256,219	11.28
Arkansas	120,751	10.05
District of Columbia	32,459	9.77
Florida	366,932	5.21
Georgia	257,233	7.96
Kentucky	302,518	13.51
Louisiana	417,058	16.03
Mississippi	283,589	19.26
North Carolina	214,442	6.58
Oklahoma	156,174	8.46
South Carolina	159,256	8.70
Tennessee	277,144	10.46
Texas	877,435	8.86
Virginia	174,738	5.66
West Virginia	155,381	14.01
Total/Average	4,051,329	10.39

Spending and Participation in
the Food Stamp Program: Fiscal 1987 (continued)

Region and State	Dollar Value of Stamps Issued (in thousands)	Percent of Population Participating
West		
Alaska	26,046	5.92
Arizona	119,544	6.11
California	615,745	6.03
Colorado	112,735	5.97
Hawaii	85,319	8.05
Idaho	37,222	6.08
Kansas	69,670	4.97
Missouri	209,888	7.55
Montana	33,075	7.43
Nebraska	49,795	6.31
Nevada	23,472	3.70
New Mexico	94,098	10.77
North Dakota	18,673	5.42
Oregon	137,677	8.16
South Dakota	29,733	7.64
Utah	47,584	5.17
Washington	156,703	6.81
Wyoming	16,185	5.73
Total/Average	1,883,164	6.55
Northeast	2,112,107	5.98
Midwest	2,426,412	7.91
Northeast and Midwest	4,538,519	6.95
South	4,051,329	10.39
West	1,883,164	6.55
South and West	5,934,493	8.47
U.S. Total/Average	10,473,012	7.71

SOURCE: Staff calculations from U.S. Department of Agriculture, Food and Nutrition Service, (Public Information Data Bank) Food Stamp Program (Washington, D.C., December 1987).

SECTION FOUR: ENERGY

The Northeast-Midwest region has a particular concern for energy programs that increase efficiency, promote local renewable resources, and make clean coal use a viable alternative to gas and oil use. The region pays the nation's highest energy prices and produces less than one-third of the energy it consumes. As shown in the table at the end of this section, the Northeast spent \$91 billion on energy in 1985, while the value of its fossil fuel production in that year was only about \$3 billion. The Midwest spent almost \$92 billion, with energy production of only \$6 billion, a reduction of \$2 billion from 1984. In sharp contrast, the South spent \$158 billion, offset by \$90 billion in production. Similarly, the West spent \$100 billion, with \$43 billion in production. A few states in the South and West accounted for most of the production: Louisiana, \$27 billion; Oklahoma, \$9 billion; Texas, \$38 billion; Alaska, \$12 billion; California, \$11 billion; and Wyoming, \$6 billion.

The administration's fiscal 1989 budget request for energy repeats many of the themes in last year's submission. It calls for steep reductions in or elimination of many programs regarded as essential to the region's energy needs. Federal energy programs slated for reduction or elimination under the budget proposal have promoted efficient energy use, assisted low-income households with unmanageable energy bills, and helped stem the outflow of capital spent on energy purchases.

It would cut budget authority for energy conservation by 72 percent after adjusting for inflation, while eliminating state and local energy grants. It would slash coal research and development by 58 percent and reduce solar and renewable technologies by 21 percent in real terms. Low-income energy assistance would be cut 25 percent after adjusting for inflation, on top of last year's reduction of 15.9 percent.

In order to fill the Strategic Petroleum Reserve (SPR) at the current rate of 50,000 barrels per day, the administration proposes \$334 million in budget authority for fiscal 1989. If Congress authorizes the sale of the Naval Petroleum Reserves (NPR) for an estimated \$3.2 billion in fiscal 1989, the administration proposes to provide an additional \$477 million to increase the SPR fill rate to 100,000 barrels per day, and an additional \$208 million to establish a separate 10-million barrel defense petroleum inventory.

The president's request assumes the continuation of some energy tax expenditures. These incentives would total an estimated \$875 million in outlay equivalents for fiscal 1989, an increase of 5.4 percent over fiscal 1988.

Certain federal energy programs have proven helpful to the region in weatherizing its older housing, developing new energy-efficient technologies, and using its extensive coal resources cleanly. These initiatives have lessened the region's dependence on outside energy sources and held down total energy expenditures. Efficient use of energy also serves to maintain the competitiveness of the region's industries. The cutback or elimination of federal energy efforts could undercut the progress made since the steep energy price increases of the 1970s.

BUDGET SUMMARY
(in millions of dollars)

Function		1981 Actual	1987 Actual	1988 Estimate	1989 Request	Percent Change 1988-1989	
						Adjusted for Nominal Inflation	
053	Atomic Energy Defense Activities						
	Budget Authority	3,660	7,478	7,749	8,100	4.5	0.7
	Outlays	3,400	7,451	7,631	7,945	4.1	0.3
	Energy Supply Research and Development						
271	Nuclear¹*						
	Budget Authority	1,445	950	934	975	4.4	0.6
	Outlays	NA	NA	NA	NA	NA	NA
271	Solar and Other Renewable²*						
	Budget Authority	657	144 ³	118	97	-17.8	-20.8
	Outlays	NA	NA	NA	NA	NA	NA
271	Energy Supply Total*						
	Budget Authority	NA	1,258 ⁴	1,860 ⁵	1,970	5.9	2.0
	Outlays	NA	NA	NA	NA	NA	NA
	Fossil Energy Research and Development						
271	Coal R&D*						
	Budget Authority	NA	203	234	102	-56.4	-58.0
	Outlays	NA	NA	NA	NA	NA	NA
271	Fossil Energy Total						
	Budget Authority	672	293 ⁶	327 ⁷	167 ⁸	-48.9	-50.8
	Outlays	NA	316	325	300	-7.7	-11.1
274	SPR Petroleum						
	Budget Authority	NA	0	439	334 ⁹	-23.9	-26.7
	Outlays	NA	490	353	416 ¹⁰	17.8	13.5
271	Clean Coal Technology						
	Budget Authority	0	0	50	525	950.0	911.6
	Outlays	0	7	55	163	196.4	185.5
276	Energy Information Administration						
	Budget Authority	90	60	61	63	3.3	-0.5
	Outlays	84	56	54	60	11.1	7.0

BUDGET SUMMARY (continued)
(in millions of dollars)

					Percent Change 1988-1989	
					Adjusted for Inflation	
Function	1981 Actual	1987 Actual	1988 Estimate	1989 Request	Nominal	
Energy Conservation						
272	Energy Conservation R&D ¹¹ *					
	Budget Authority	NA	160	156	86	-44.9 -46.9
	Outlays	NA	NA	NA	NA	NA
272	State/Local Assistance*					
	Budget Authority	NA	214	212	9	-95.8 -95.9
	Outlays	NA	NA	NA	NA	NA
272	Total					
	Budget Authority	709	232 ¹²	310 ¹³	89 ¹⁴	-71.3 -72.3
	Outlays	743	271	322	306	-5.0 -8.4
609	Low-Income Home Energy Assistance					
	Budget Authority	1,850	1,822	1,532	1,187	-22.5 -25.4
	Outlays	1,730	1,829	1,558	1,218	-21.8 -24.7
Power Marketing Administration						
271	Alaska Power Administration					
	Budget Authority	3	3	3	3	0.0 -3.7
	Outlays	3	3	3	3	0.0 -3.7
271	Bonneville Power Administration					
	Budget Authority	NA	432	165	136	-17.6 -20.6
	Outlays	-5	49	-212	-214	0.9 -2.8
271	Southeastern Power Administration					
	Budget Authority	2	23	27	36	33.3 28.5
	Outlays	2	23	28	35	25.0 20.4
271	Southwestern Power Administration					
	Budget Authority	28	25	17	15	-11.8 -15.0
	Outlays	33	20	27	26	-3.7 -7.2
271	Western Area Power Administration					
	Budget Authority	142	238	250	298	19.2 14.8
	Outlays	132	162	207	235	13.5 9.2

271	Total, PMAs						
	Budget Authority	175	722	462	489	5.8	2.0
	Outlays	164	258	53	84	58.5	52.7
271	Rural Electrification and Telephone Revolving Fund						
	Budget Authority	NA	245	1,083	0 ¹⁵	-100.0	-100.0
	Outlays	NA	-252	-1,357	-1,310 ¹⁶	-3.5	-7.0
271	Rural Electrification Administration						
452	Budget Authority	NA	404	1,472	131 ¹⁷	-91.1	-91.4
	Outlays	NA	-238	-1,187	-1,260 ¹⁸	6.1	2.3

*Numbers taken from the detailed Department of Energy budget books.

¹ Nuclear includes magnetic fusion; nuclear energy; civilian radioactive waste research and development; and remedial action and waste technology.

² Includes solar, geothermal, and hydropower. It excludes electric energy systems and storage.

³ Excludes \$1 million transferred to SBIR from solar energy.

⁴ Less the use of prior year balances and other adjustments of \$697 million.

⁵ Less the use of prior year balances and other adjustments of \$120 million.

⁶ Minus prior year balances and other adjustments of \$6 million.

⁷ Minus prior year balances and other adjustments of \$27 million.

⁸ Minus prior year balances and other adjustments of \$1 million.

⁹ Excludes \$684 million in additional authority proposed contingent on the sale of the Naval Petroleum Reserves in fiscal 1989.

¹⁰ Excludes an additional \$479 million in outlays contingent on sale of the Naval Petroleum Reserves in fiscal 1989.

¹¹ Includes buildings and community systems; industrial; transportation; multi-sector; policy and management; and facilities.

¹² Minus prior year balances and other adjustments of \$142 million.

¹³ Minus prior year balances and other adjustments of \$59 million.

¹⁴ Minus prior year balances and other adjustments of \$6 million.

¹⁵ Includes a reduction of \$81 million in rural electrification and telephone revolving loan fund subsidies and \$27 million in rural telephone bank loan subsidies due to credit reform.

¹⁶ Includes a reduction of \$10 million in rural electrification and telephone revolving loan fund subsidies and \$2 million in rural telephone bank loan subsidies due to credit reform and a reduction of \$2.093 million in outlays proposed for later transmittal under proposed legislation.

¹⁷ Includes a reduction of \$51 million proposed for later transmittal under proposed legislation and a reduction of \$79 million for credit reform.

¹⁸ Includes a reduction of \$51 million for later transmittal under proposed legislation and a reduction of \$11 million for credit reform.

Despite the fact that the region has the highest electricity prices in the continental United States, it continues to subsidize low-cost power for the South and West. Total budget authority requested for the power marketing administrations in fiscal 1989 is \$489 billion, an increase of 6 percent. Total outlays for fiscal 1989 are \$84 million, an increase of 59 percent. Interest subsidies for power lines and generation remain substantial.

A. Energy Conservation

The Department of Energy's conservation budget is divided into two major categories: grants to state and local governments for energy conservation assistance and energy conservation research and development (R&D). The president's request would cut combined budget authority for these programs by 71 percent, from \$310 million in fiscal 1988 to \$89 million in fiscal 1989. However, in fiscal 1988 an additional \$57 million was available for these programs from the settlement of oil overcharge cases. This year's proposal assumes no use of oil overcharge monies in fiscal 1989, which has the effect of reducing federal funds by 76 percent.

Energy conservation grants provide funds to state and local governments to promote conservation activities under four separate grant programs: low-income weatherization assistance, institutional conservation (also known as the schools and hospitals program), state energy conservation planning, and the Energy Extension Service. The president's proposal would eliminate state and local assistance programs and allow only \$9 million in authority for program direction and management for prior-year federal grants plus oversight of oil overcharge funds distribution to states. In fiscal 1988, 63 percent of the low-income weatherization assistance grants (\$158 million) went to states in the Northeast-Midwest region. (See the table at the end of this section for a state-by-state breakdown.)

Administration budget documents justify the elimination of the state and local grants for energy assistance by insisting that funds for this purpose are available to the states from settlements of oil overcharge cases. These cases arose from charges that several oil companies violated federal petroleum price controls and illegally overcharged consumers. In approving settlements, courts have been guided by the principle of providing restitution to aggrieved consumers, which has taken the form of state-administered energy assistance programs. Using the settlement funds in lieu of federal appropriations for these programs, as the president continues to propose, would have the same impact as diverting the oil overcharge settlements into the federal treasury and away from over charged customers. Such a move would violate the intent of court-ordered restitution, which directed that overcharge monies supplement rather than supplant federal funding. Clearly, states need to use oil overcharge monies to supplement federal appropriations, which have provided only \$2 billion for low-income weatherization in the 13 years from fiscal 1975 through fiscal 1988. The Congressional Budget Office, in contrast, estimated in January of 1984 that the weatherization of all eligible low-income homes within ten years would cost \$28.5 billion.

States in the Northeast-Midwest region receive a large share of the weatherization and low-income energy assistance grants under distribution formulas that take into consideration factors such as energy prices and

weather. The replacement of federal appropriations for these programs with oil overcharge monies, which are allocated without regard to these factors, would result in the loss to the region of millions of dollars in energy assistance. For example, of the \$250 million cut from the low-income energy and weatherization programs in fiscal 1987, the region would have received \$158 million; the \$250 million allocated according to the oil overcharge formula would provide only \$111 million to these states, a loss of \$48 million.

The president's budget requests a cut of 47 percent in real terms in energy conservation R&D, from \$156 million in fiscal 1988 to \$86 million in fiscal 1989. The goal of the federal conservation R&D program is to expand the technological base industry can draw upon to develop new products and processes for the commercial marketplace. The program, therefore, helps bring into use new energy-efficient products and improves the competitiveness and trade posture of the region's industries, many of which rely on older, energy-inefficient technologies. Cutbacks in federal energy conservation R&D also threaten the international competitiveness of U.S. firms marketing such products as solid-state fluorescent lighting ballasts, permanent-magnet motors, and absorption heat pumps.

Energy conservation is an important energy "source" to be developed in the economy. Substantial energy efficiency gains, which could lower energy use by one-third are still achievable in the residential, commercial, industrial, and transportation sectors. By improving the efficient use of energy, the economy could continue to expand without increasing the overall consumption of energy, resulting in increased profitability and competitiveness of U.S. industry, while lowering operating expenses for families and commercial establishments. An alternative proposal for the fiscal 1988 energy conservation budget was sponsored last year by a diverse array of 27 different interest groups--from the Alliance to Save Energy, American Association of Retired Persons, Environmental Action, the National Audubon Society, the Natural Resources Defense Council, Sierra Club, the United Methodist Church-Board of Church and Society, to the Union of Concerned Scientists.

The alternative conservation budget called for an increase of \$34 million over fiscal 1987 appropriations of \$157 million for energy conservation R&D. This request included about \$20 million in new R&D initiatives for such technologies as fluorescent lamps that emit twice as much light as conventional fluorescents and advanced production processes for ceramic energy parts. These suggested initiatives focus on emerging energy efficiency technologies that offer enormous potential for commercial applications.

The alternative budget also asked for an increase of \$27 million for state and local grant programs over fiscal 1987 appropriations of \$212 million, the minimum funding level necessary to carry out a broad range of essential and innovative energy-efficiency programs in all sectors of the economy. The sponsors noted that while current program needs greatly exceed the alternative levels they suggest, the alternative request ensures that every state will be able to maintain minimum funding levels for each of the four programs. While the coalition of interest groups has not yet finalized its alternative energy conservation budget for fiscal 1989, it is likely to request a similar amount for this year.

B. Low-Income Home Energy Assistance Program (LIHEAP)

The administration is requesting \$1.19 billion for LIHEAP, a 25 percent reduction in real terms from fiscal 1988. This cut comes on top of a 16 percent reduction in fiscal 1988. LIHEAP provides block grants to states to help pay the fuel bills of low-income families by making direct cash payments to eligible households, fuel vendors, or, in some cases, public housing operators. The program also provides energy crisis assistance and permits states to set aside 15 percent of their LIHEAP money for the weatherization of low-income homes. Because of its cold weather, older housing, high energy prices, heavy oil dependence, and large low-income population, the Northeast-Midwest region will receive 64 percent of the LIHEAP funds in fiscal 1988. (See the table at the end of this section for a state-by-state breakdown.)

The ability of LIHEAP to meet low-income heating and cooling needs has declined over the past several years. In 1980, federal energy assistance represented roughly 40 percent of estimated eligible heating and cooling costs of \$3.35 billion. By fiscal 1987, LIHEAP funds met only 19.5 percent of poor people's eligible heating and cooling costs of \$9.35 billion. Assuming that eligible heating and cooling costs remained the same in fiscal 1988, LIHEAP amounted to only 16 percent of those costs. If the president's request is enacted, LIHEAP would fall to 12.7 percent of eligible costs. This abdication of federal responsibility for low-income energy assistance is even more devastating than it appears, as eligible heating and cooling costs represent only about 40 percent of low-income home energy costs. Yet most low-income families must keep both electricity and home heating fuel in order to have essential energy needs met. Many gas-fired furnaces, for example, have electric starters. Some low-income families face agonizing choices between maintaining electricity needed for refrigerators and lights and utilities supplying heat.

For low-income households, home energy costs represent about 15 percent of their average incomes, about four times the percentage of income paid by the typical U.S. household. This gap has remained virtually unchanged since LIHEAP began in 1980, despite the perception of many policymakers that energy costs are no longer the burden they once were. Low-income households also have the least ability to weatherize their homes, purchase more energy-efficient appliances, or make other energy conservation investments.

The nation has increased its concern for the plight of the homeless in America. In fact, the president requests \$400 million in aid to the homeless. Yet he continues to ask for cuts in low-income energy assistance, despite the fact that many experts have demonstrated the connection between homelessness and the inability to keep utility service. Landlords routinely evict families that are not able to stay current on utility bills. It appears short-sighted to advocate cuts in LIHEAP in order to balance the deficit, while homelessness continues to increase.

C. Energy Research and Development

The administration has requested \$975 million for nuclear research and development in fiscal 1989, a 4.4 percent increase from fiscal 1988. The \$167 million requested for fossil energy R&D represents a 49 percent reduction, and

the \$97 million requested for solar and other renewables would be an 18 percent reduction from fiscal 1988.

The fossil fuel program, which provides for long-term research and development, would suffer the largest cut, primarily because the coal R&D budget would be reduced by \$132 million, or 56 percent. This program funds research in coal liquefaction, surface coal gasification, control technology and coal preparation, combustion systems, fuel cells, and heat engine programs, as well as advanced research at universities, national laboratories, and the Energy Technology Centers.

Coal is the primary fossil fuel resource in the Northeast-Midwest region; in 1984, the region produced 25 percent of the nation's coal, and it relied on coal for 60 percent of its electricity. Most of this coal has a high sulphur content; expanded use therefore depends on efficient, cost-effective technologies to reduce emissions.

The administration proposes \$525 million in new budget authority for the clean coal technology program, which finances the federal share of construction and operation of facilities that demonstrate clean coal technologies for future commercial applications. (For a more complete discussion of the clean coal technology program, see the Natural and Physical Resources section.)

Budget authority of \$97 million for solar and other renewables in fiscal 1989 represents about an 18 percent cut from \$118 million in fiscal 1988. Expanded development of safe, indigenous solar and other renewable energy resources is important if states in the region are to increase their energy independence.

D. Energy Information Administration (EIA)

Budget authority in fiscal 1989 for EIA is \$63 million, \$2 million more than in fiscal 1988, but a reduction of 0.5 percent in real dollars. Within its projected budget, EIA proposes to continue publications of particular interest to the Northeast-Midwest region--The State Energy Data Report and the State Energy Price and Expenditures Report. However, EIA will not continue the state oil price and inventory monitoring program, referred to as the Heating Oil Grants Program. At a cost of about \$200,000, this program provides states with funds, which allows them to track the retail price of fuel oil for residential customers on a biweekly basis. The program provides an early warning system on rapid increases in heating oil during the winter heating season. In fiscal 1987, 13 states in the Northeast-Midwest region participated in the program. It is the only source of timely information on retail prices and inventory levels. Last year, Congress directed the EIA to continue the program without providing the states with grants. However, without any federal funds for data collection, many states do not collect the information, and those that do, provide data incompatible with that collected by other states. This leaves the EIA without a timely, comparable, and complete data base for heating oil price analysis.

E. Electricity

The administration has requested \$489 million in fiscal 1989 budget authority for the power marketing administrations (PMAs) that provide low-cost electricity throughout the South and West. The administration once again proposes the sale of the Alaska Power Administration in fiscal 1989 and the study of a sale of the Southeastern Power Administration in fiscal 1990. The budget assumes \$100 million in revenues from the sale of the Alaska Power Administration in fiscal 1989.

PMAs receive large taxpayer subsidies because they repay federal loans at interest rates well below the Treasury's cost of borrowing. For example, the second powerhouse at the Bonneville Dam, a \$639 million investment, was placed in service during 1981 to 1983. Bonneville Power Administration (BPA) pays 3.25 percent interest on that loan. Treasury long-term interest rates at that time ranged from 11.1 percent to 13.9 percent. The subsidy for this investment alone will total \$2.5 billion, according to the administration. The total Treasury subsidy to the BPA will be \$62 million per year until 2020, when the debt will be repaid.

The Northeast-Midwest region is the only part of the country not served by a power marketing administration while it remains the region with the highest electricity rates. The average electricity price in New Jersey (\$29.37/million BTU) is 308 percent higher than in the state of Washington (\$9.54/million BTU in 1985). The variation between cities was even more dramatic--780 percent difference between rates in New York City (15.6 cents/kWh) and Seattle (2.0 cents/kWh). As a result, the region with the highest electricity prices continues to subsidize heavily the region with the lowest. Although many experts have pointed out opportunities for substantially lowering rates in the Northeast-Midwest region--increased bulk power sales, long distance transmission, and rationalization of wheeling rates--several institutional barriers continue to limit these options.

Estimates of the need for new power generation in the Northeast-Midwest region vary widely, but most experts predict some need for new capacity by the year 2000. Several strategies have been proposed for meeting that projected demand and keeping costs down: increased purchase of bulk power from Canadian and domestic utilities, conservation and load management, cogeneration, and development of small scale renewables. The Congressional Research Service suggests that regional approaches to energy planning and increased reliance on market prices could result in a cheaper future supply of electricity. However, a strategy for developing a regional planning approach has not emerged.

The administration proposes to phase-out the Rural Electrification Administration's (REA) direct loan and 100 percent loan guarantees for the operation of generating plants, electric transmission, and distribution lines or systems. These would be replaced with a new partial Rural Electrification Program (REA) loan guarantee program with a 70 percent REA guarantee of principal and interest of privately originated electric distribution and telephone loans and 80 percent guarantee of power supply loans. Proposed legislation would allow the sale of rural electrification and telephone fund loan assets, which would be used to repay Treasury loans. The administration justifies this request by pointing out that the REA goals of providing electric and telephone service to rural areas are largely accomplished. This change

would lower budget authority for REA by \$1.3 billion in fiscal 1989, a reduction of 91 percent.

F. Oil Import Fee

Although the administration remains opposed to an oil import fee, Congress may consider one during the next session. The Congressional Budget Office estimates a higher budget deficit for fiscal 1989 than the administration assumes in its budget submission, which makes additional fees attractive. Oil prices could fall in 1988 if OPEC is not able to cut production enough to stabilize prices. Therefore, an oil import fee remains an elusive but appealing way to raise substantial revenues for budget deficit reduction. The figure of \$10 billion has been mentioned as a goal by some energy analysts.

An oil import fee, however, is bad policy for three reasons: it is a highly inefficient tax, that raises the cost of oil products for the consumer about \$3 for every dollar collected in revenue; it would increase domestic production in the short run, leaving the country more vulnerable to oil disruptions in the future; and it is regionally inequitable.

The table at the end of this section, illustrates the inequity and counterproductive nature of an oil import fee. It compares the effects of an oil import fee and a gasoline tax on consumers, plus the profits to producers, resulting from the application of taxes high enough to raise \$10 billion. Based on an analysis of 1985 figures, consumers of oil products would pay \$34.5 billion in higher prices because the price of domestic oil would rise to the price of imported oil. Domestic producers would reap an estimated \$24.5 billion in extra profits, assuming that usage patterns of imported and domestically produced oil remained relatively stable. Higher priced oil would hurt the competitive position of many industries, particularly energy-intensive companies. In comparison, a gasoline tax designed to raise \$10 billion would increase consumer costs by \$10 billion. However, this is a politically less appealing option for Congress, since Members are loath to raise highly visible federal taxes at the gas pump.

Advocates of an oil import fee have argued that the measure would stimulate domestic production and reduce the nation's dependence on oil imports. While this is true in the short run, the long-range effect would be to make the nation more vulnerable to an oil embargo or supply disruption. The nation has a declining capacity to produce oil. "The U.S. Geological Survey has reduced by 40 percent its estimates of how much conventional oil and gas remains to be discovered in the United States, suggesting that domestic resources are more limited than earlier believed," according to the Washington Post. The new survey concludes that the U.S. has only enough undiscovered crude oil to last about 11 years at current production levels and about 14 years for natural gas. Any attempt to stimulate production to reduce dependence on imports now increases future vulnerability. Some refer to this policy as "drain America first."

An oil import fee would be regionally inequitable. The burden of oil import fees would fall on New England disproportionately. For example, 33 percent of New England's electricity was produced by oil-fired plants in 1985, compared to a national average of 4 percent. Homes in New England relied on heating oil for one-third of home energy use, while the national average was

only 10 percent. Thirty-four percent of New England's industrial energy consumption came from petroleum products, compared to a national average of 28 percent. New England's commercial establishments relied on petroleum products for 19 percent of their energy compared to a national average of 9 percent.

**Comparison of Energy Expenditures and
Fossil Fuel Production by State: 1985**
(in millions of dollars)

Region and State	Expenditures	Value of Fossil ¹ Fuel Production
New England		
Connecticut	5,614	0
Maine	2,061	0
Massachusetts	9,476	0
New Hampshire	1,538	0
Rhode Island	1,478	0
Vermont	866	0
Total	21,033	0
Mid-Atlantic		
Delaware	1,284	0
Maryland	7,303	*
New Jersey	15,796	0
New York	25,713	123
Pennsylvania	20,137	2,910
Total	70,233	3,033
Midwest		
Illinois	21,408	2,641
Indiana	11,928	1,023
Iowa	5,639	15
Michigan	16,571	1,090
Minnesota	7,394	0
Ohio	20,663	2,140
Wisconsin	8,023	0
Total	91,626	6,909
South		
Alabama	7,901	2,140
Arkansas	4,400	886
District of Columbia	1,147	0
Florida	18,421	322
Georgia	10,823	0
Kentucky	6,391	4,612
Louisiana	13,543	27,192
Mississippi	4,445	1,238
North Carolina	10,695	0
Oklahoma	6,786	9,171
South Carolina	5,805	0
Tennessee	8,964	241
Texas	45,643	38,446
Virginia	9,208	1,268
West Virginia	3,717	4,900
Total	158,489	90,416

**Comparison of Energy Expenditures and
Fossil Fuel Production by State: 1985 (continued)**
(in millions of dollars)

Region and State	Expenditures	Value of Fossil ¹ Fuel Production ¹
West		
Alaska	1,755	11,678 ²
Arizona	5,474	202
California	41,286	11,039
Colorado	5,310	1,717
Hawaii	1,927	0
Idaho	1,704	0
Kansas	5,177	2,587
Missouri	9,050	157
Montana	1,705	1,317
Nebraska	2,950	182
Nevada	1,895	58
New Mexico	2,612	4,997
North Dakota	1,635	1,675 ³
Oregon	4,434	9 ³
South Dakota	1,253	48
Utah	2,770	1,625 ²
Washington	7,337	0 ²
Wyoming	1,425	6,021
Total	99,699	43,312
Northeast	91,266	3,033
Midwest	91,626	6,909
Northeast and Midwest	182,892	9,942
South	158,489	90,416
West	99,699	43,312
South and West	258,188	133,728
U.S. Total⁴	441,045	143,670

*Less than \$1 million.

¹Value of production at the mine mouth or wellhead.

²Coal production total withheld to avoid disclosure of individual company data.

³Natural gas production was unavailable.

⁴Totals may not add due to rounding.

SOURCES: Staff calculations based on U.S. Department of Energy, Energy Information Administration, State Energy Price and Expenditure Report 1985 (Washington, D.C., October 21, 1987), pp. 5, 7 and 11; Energy Data Report, Consumption Estimates, 1960-1985 (Washington, D.C., April 27, 1987), p. 1; Petroleum Marketing Annual, 1985, Volume 1 (Washington, D.C., December 16, 1986), p. 20; Natural Gas Annual, 1985 (Washington, D.C., November 24, 1986), p. 13; Petroleum Supply Annual, 1985, Volume 1 (Washington, D.C., December 16, 1986), p. 20; and Coal Production, 1985 (Washington, D.C., November 7, 1986), pp. 44 and 50.

Low-Income Home Energy Programs and Expenditures

Region and State	Low-Income Home Energy Assistance Program			Weatherization Assistance Program Fiscal 1988
	Households	Allocation Fiscal 1988	Estimated	
	Receiving		Allocation ¹	
	Assistance Fiscal 1987 (in thousands)		Fiscal 1989 ¹ (in thousands of dollars)	
New England				
Connecticut	75	32,094	24,866	2,198
Maine	57	20,576	15,942	2,594
Massachusetts	142	64,187	49,732	5,238
New Hampshire	23	12,151	9,415	1,324
Rhode Island	26	10,539	8,166	977
Vermont	18	9,108	7,057	1,104
Total	341	148,655	115,178	13,435
Mid-Atlantic				
Delaware	12	4,260	3,301	499
Maryland	88	24,574	19,040	2,062
New Jersey	167	59,504	46,104	4,386
New York	892	194,428	150,643	16,270
Pennsylvania	418	104,527	80,987	10,456
Total	1,577	387,293	300,075	33,673
Midwest				
Illinois	359	88,830	68,825	9,639
Indiana	144	40,220	31,162	4,528
Iowa	122	28,504	22,085	3,810
Michigan	467	84,182	65,224	10,672
Minnesota	120	60,638	46,982	7,953
Ohio	387	78,583	60,886	8,958
Wisconsin	202	54,692	42,375	6,282
Total	1,801	435,649	337,539	51,842
South				
Alabama	128	13,087	10,140	1,403
Arkansas	92	10,036	7,776	1,328
District of Columbia	24	4,984	3,862	592
Florida	170	20,807	16,121	521
Georgia	75	16,454	12,749	1,584
Kentucky	97	20,930	16,217	3,028
Louisiana	104	13,446	10,418	693
Mississippi	75	11,264	8,727	912
North Carolina	172	28,753	22,279	2,532
Oklahoma	90	11,578	8,971	1,591
South Carolina	86	10,446	8,094	976
Tennessee	88	21,202	16,427	2,764
Texas	501	34,623	26,826	2,079
Virginia	113	29,933	23,192	2,747
West Virginia	75	13,851	10,732	2,079
Total	1,890	261,394	202,531	24,829

Low-Income Home Energy Programs and Expenditures (continued)

Region and State	Low-Income Home Energy Assistance Program			Weatherization
	Households	Allocation	Estimated	Assistance
	Receiving		Allocation ¹	Program
	Assistance		Fiscal 1989	Fiscal 1988
	Fiscal 1987		Fiscal 1988	Fiscal 1988
	(in thousands)	(in thousands of dollars)		
West				
Alaska	11	7,014	5,434	1,400
Arizona	30	5,686	4,405	706
California	333	70,262	54,439	4,163
Colorado	65	24,602	19,062	3,537
Hawaii	6	1,657	1,284	166
Idaho	38	9,520	7,376	1,533
Kansas	72	13,071	10,127	1,751
Missouri	144	35,482	27,491	4,183
Montana	24	9,274	7,185	1,805
Nebraska	40	14,080	10,909	1,980
Nevada	17	2,981	2,310	461
New Mexico	50	7,368	5,709	1,143
North Dakota	18	10,795	8,364	1,953
Oregon	85	19,067	14,773	2,076
South Dakota	23	8,401	6,509	1,715
Utah	42	11,242	8,710	1,477
Washington	98	30,179	23,383	3,265
Wyoming	13	4,577	3,546	782
Total	1,109	285,258	221,016	34,097
Northeast	1,918	535,948	415,253	47,108
Midwest	1,801	435,649	337,539	51,842
Northeast and Midwest	3,719	971,597	752,792	98,950
South	1,890	261,394	202,531	24,829
West	1,109	285,258	221,016	34,097
South and West	2,999	546,652	423,547	58,926
U.S. Total ²	6,694	1,518,250	1,176,340	157,876

¹ Assumes Congress appropriates the administration's budget request of \$1.187 billion, a 22.5 percent reduction.

² Totals may not add due to rounding.

SOURCES: U.S. Department of Health and Human Services, Family Support Administration, Low-Income Home Energy Assistance program "Information Memorandum," FSA-1M-88-2 (Washington, D.C., November 6, 1987), p. 12 (LIHEAP recipients); Family Support Administration, Low-Income Home Energy Assistance program, data run, Washington, D. C., January 11, 1988 (fiscal 1988 allocations); and U.S. Department of Energy, "1988 Weatherization State Allocation Report by Individual States," preliminary estimates, Washington, D.C., January 28, 1988.

**Estimated Impact of Energy Tax ¹
Alternatives in Raising \$10 Billion¹
(in millions of dollars)**

Region and State	\$10-Billion Oil Import Fee		\$10-Billion Gasoline Tax
	Producers Windfall	Impact on ² Consumers	Impact on ³ Consumers
New England			
Connecticut	0	488	124
Maine	0	215	50
Massachusetts	0	851	220
New Hampshire	0	137	41
Rhode Island	0	121	35
Vermont	0	71	23
Total	0	1,883	493
Mid-Atlantic			
Delaware	0	135	30
Maryland	0	522	183
New Jersey	0	1,358	302
New York	8	1,791	547
Pennsylvania	36	1,337	409
Total	44	5,143	1,471
Midwest			
Illinois	227	1,271	446
Indiana	39	835	232
Iowa	0	380	126
Michigan	205	954	375
Minnesota	0	553	183
Ohio	112	1,262	436
Wisconsin	0	508	186
Total	583	5,763	1,984
South			
Alabama	162	506	174
Arkansas	143	338	107
District of Columbia	0	44	15
Florida	86	1,450	502
Georgia	0	842	292
Kentucky	58	519	160
Louisiana	3,810	1,510	198
Mississippi	230	377	111
North Carolina	0	743	284
Oklahoma	1,220	521	170
South Carolina	0	387	152
Tennessee	6	628	233
Texas	6,663	4,579	824
Virginia		749	253
West Virginia	27	276	74
Total	12,405	13,469	3,549

**Estimated Impact of Energy Tax
Alternatives in Raising \$10 Billion¹ (continued)**
(in millions of dollars)

Region and State	\$10-Billion Oil	Import Fee	\$10-Billion
	Producers Windfall	Impact on ² Consumers	Gasoline Tax Impact on ³ Consumers
West			
Alaska	4,994	246	22
Arizona	1	355	145
California	3,177	3,461	1,072
Colorado	227	371	143
Hawaii	0	255	30
Idaho	0	118	43
Kansas	565	443	113
Missouri	2	647	241
Montana	223	179	41
Nebraska	52	218	71
Nevada	23	152	46
New Mexico	589	242	72
North Dakota	381	133	35
Oregon	0	353	116
South Dakota	12	110	37
Utah	306	207	65
Washington	0	655	176
Wyoming	963	143	30
Total	11,515	8,288	2,498
Northeast	44	7,026	1,964
Midwest	583	5,763	1,984
Northeast and Midwest	627	12,789	3,948
South	12,405	13,469	3,549
West	11,515	8,288	2,498
South and West	23,920	21,757	6,047
U.S. Total	24,546	34,546	10,000

* Less than \$1 million.

¹ All state figures are based on 1985 percentages of total petroleum consumption from the U. S. Department of Energy, Energy Information Administration, State Energy Data Report: Consumption Estimates, 1960-1985 (Washington, D. C., April 27, 1987), p. 1. The percentage of petroleum imports to total petroleum consumed is based on 1985 data obtained from the U.S. Department of Energy, Energy Information Administration, Monthly Energy Review, September 1987 (Washington, D.C., December 21, 1987), pp. 11 and 13. Assuming that imports raised \$10 billion in revenue, the remaining petroleum consumed in 1985 would rise to imported prices representing an additional \$24.5 billion in costs, which would represent additional revenue paid to producers.

² Averages \$6.01/barrel on petroleum imports, assumes domestically produced oil price equals import price and averages about 14 cents/gallon on fuel oil or on gasoline. Although the price of oil affects the price of natural gas and coal as well, it is not possible to quantify the impact.

³ Averages 4 cents/gallon gasoline tax.

⁴ Totals may not add due to rounding.

SOURCES: U. S. Department of Energy, Energy Information Administration, State Energy Data Report: Consumption Estimates, 1960-1985 (Washington, D. C., April 27, 1987), pp. ix and 1.; Coal Production, 1985 (Washington, D. C., November 7, 1986), pp. 44 and 50; Petroleum Supply Annual, 1985, Volume 2 (Washington, D. C., June 13, 1986), p. 99; Petroleum Marketing Annual, 1985, Volume 1 (Washington, D. C., December 16, 1986), p. 20; and State Energy Price and Expenditure Report, 1985 (Washington, D. C., October 21, 1987), pp. 5, 9, and 11.



SECTION FIVE: DEFENSE

The president's fiscal 1989 military budget conforms with the requirements of last November's bipartisan budget agreement. Unlike previous budget requests, the 1989 proposal would result in a decrease in military spending after inflation is taken into account.

Under the president's request, total budget authority for military programs would increase by \$8.102 billion in fiscal 1989 to \$299.529 billion. This would be an increase of 2.8 percent in nominal dollars, but would represent a decrease of 0.7 percent after adjusting for inflation. Outlays would increase by \$8.597 billion, or 3.0 percent in nominal dollars. Outlays would decrease by 0.7 percent after adjusting for inflation. The constraints of the bipartisan budget agreement on military spending will result in active and inactive force reductions, slowdowns and deferrals in the development and procurement of weapon systems, and even cancellation of some programs.

A 1.2 percent reduction (4.3 percent real decrease) from fiscal 1988 levels in the request for procurement contributes substantially to the slight overall reduction. The requested increase for military personnel is also less than needed to compensate for inflation.

Slight real increases are requested for the other major categories of military spending: operation and maintenance, research and development, and military construction. The 1989 request calls for a \$1 billion increase over 1988 levels in funding for the Strategic Defense Initiative (SDI) totaling \$4.6 billion.

In fiscal 1986, defense spending in the Northeast-Midwest region came to only 32.6 percent of the U.S. domestic total. The region has 43 percent of the nation's population. In each of the major categories of military spending, including military procurement, the region receives less than the per-capita average share of military spending. (For state-by-state figures of selected defense expenditures, see the table at the end of this section.)

Major Defense Expenditures, 1986
(in billions of dollars)

Category	Total Spending	Northeast and Midwest Share	NE-MW percent of Total
Payroll	81.714	17.124	21.0
Research and Development	50.214	19.223	38.3
Military Construction	4.230	0.673	15.9
Military Prime Contracts	136.026	53.530	39.4
Total/Average	272.184	90.550	33.3

BUDGET SUMMARY
(in millions of dollars)

Function		1981 Actual	1987 Actual	1988 Estimate	1989 Request	Percent Change 1988-1989	
						Adjusted	
						Nominal	Inflation ¹
Defense							
051	Military Personnel						
	Budget Authority	64,610	74,010	76,145	78,399	3.0	-0.2
	Outlays	64,140	72,020	75,453	77,827	3.1	0.0
051	Operations and Maintenance						
	Budget Authority	55,550	79,607	80,684	85,649 ²	6.2	2.4
	Outlays	51,920	76,205	80,433	82,725	2.8	-0.8
051	Procurement						
	Budget Authority	48,030	80,234	81,027	80,037 ²	-1.2	-4.3
	Outlays	35,190	80,744	79,166	79,820	0.8	-2.9
051	Research and Development						
	Budget Authority	16,610	35,644	36,695	38,157 ²	4.0	0.3
	Outlays	15,280	33,596	33,127	36,295	9.6	5.6
051	Military Construction						
	Budget Authority	3,400	5,093	5,354	5,743	7.3	3.8
	Outlays	2,460	5,853	5,419	5,668	4.6	0.8
051	Family Housing						
	Budget Authority	2,900	3,075	3,149	3,272	3.9	0.3
	Outlays	1,720	2,908	3,023	3,229	6.8	2.9
050	Other						
	Budget Authority	2,030	2,647	854	788	-7.7	NA
	Outlays	-610	3,481	1,405	906	-35.5	NA
	Offsetting Receipts						
	Budget Authority	0	-841	-750	-766	2.1	NA
	Outlays	0	-841	-750	-766	2.1	NA
050	Subtotal DoD						
	Budget Authority	179,390	279,469	283,159	290,784 ²	2.7	-0.7
	Outlays	156,100	273,966	277,275	285,500	3.0	-0.6
053	Atomic Energy						
	Budget Authority	3,660	7,478	7,749	8,100	4.5	0.7
	Outlays	3,400	7,451	7,631	7,945	4.1	0.3

BUDGET SUMMARY (continued)
(in millions of dollars)

Function	1981 Actual	1987 Actual	1988 Estimate	1989 Request	Percent Change 1988-1989	
					Adjusted for Nominal Inflation ¹	
Defense (continued)						
Defense-Related						
Budget Authority	370	480	508	645	27.0	NA
Outlays	280	582	517	575	11.2	NA
050 Total National Defense						
Budget Authority	182,410	287,427	291,416	299,529 ²	2.8	-0.7
Outlays	159,770	281,999	285,423	294,020	3.0	-0.6

¹ Deflators for major categories of military spending obtained from the Assistant Secretary of Defense (comptroller), based on estimated fiscal 1988 deflators.

² Assumes passage of additional authorizing legislation.

The president's request for military spending constitutes 27.4 percent of the total fiscal 1989 federal budget. Assuming continuation of an average annual increase of 3.0 percent in the Gross National Product, military spending would represent 6.4 percent of GNP in fiscal 1989.

A. Procurement

The administration requests \$85.259 billion in budget authority and \$79.820 billion in outlays for military procurement in fiscal 1989. This represents a nominal decrease of 1.2 percent in budget authority compared with 1988 levels and a real decrease of 4.3 percent. Of the major categories of military spending, procurement is targeted for the largest percentage cut in budget authority from fiscal 1988 levels.

In 1987, the states in the Northeast and Midwestern region received 39.1 percent of all military prime contracts valued above \$25,000. The proposed cut in procurement could have a significant impact on New York, Massachusetts, and Connecticut, which received \$23.3 billion (17.7 percent) of the national total of procurement dollars last year. These funds have aided the resurgence of the economies of certain communities and states in New England. However, there is a clear inequity in the distribution of military prime contracts in the seven states of the Midwest. Despite containing almost twice the population of California, the seven midwestern states receive just over half the amount of federal prime contracts in 1987 than the state of California alone. (For state-by-state figures on prime contract awards in relation to other defense expenditures, see the table at the end of this section.)

Because of the disproportionately small share of military spending the region receives, the Northeast-Midwest Congressional Coalition has led efforts to help firms compete effectively for federal procurement contracts. In 1984, the Defense Logistics Agency established the Procurement Technical Assistance Cooperative Agreement Program (PTACAP). This program provides matching funds to state and local governments and nonprofit organizations that give technical assistance to businesses seeking federal contracts. This program usually includes expert help in identifying bidding opportunities, assistance with preparing a bid, and follow-through for obtaining a federal contract.

By helping companies identify and act on opportunities to sell to the government, these organizations can broaden the defense industrial base and reduce the government's cost for procurement through increased competition. Through an amendment sponsored by Coalition members in 1987, \$7 million was authorized for this program in fiscal 1988.

B. Military Personnel

The administration requests \$78.4 billion in budget authority for military personnel. This represents an increase of \$2.2 billion, or a 2.9 percent nominal increase over the 1988 spending level. After adjusting for inflation, the proposal represents a real decrease of 0.18 percent over 1988 funding levels. Although the president expects pay increases of 4.3 percent for military personnel beginning in January 1989, there are no specific requests for funds for salary increases in his budget. Military personnel outlays would increase by \$2.3 billion over fiscal 1988. The 1989 request for military

personnel constitutes 26.2 percent of the entire 1989 DoD budget, and 6.4 percent of the entire federal budget request. The distribution of military personnel is heavily skewed against the Northeast and Midwest. Fewer than 20 percent of all DoD personnel, and only 14.2 percent of active-duty personnel, were located in the region in 1986.

C. Research and Development

The administration requests \$38.2 billion in budget authority and \$36.3 billion in outlays for military research and development in fiscal 1989. The budget authority request represents an increase of \$1.5 billion or 4.0 percent, a real increase of just 0.32 percent when adjusted for inflation, over fiscal 1988 budget authority levels. Outlays would increase by \$3.2 billion in fiscal 1989, or 9.6 percent over fiscal 1988 levels. In 1986 the military spent \$32.841 billion on research and development, or 65.3 percent of all federal R&D funding.

D. Military Construction

The president requests \$5.743 billion in budget authority and \$5.668 billion in outlays for military construction in fiscal 1989. This request represents an increase of \$389 million or 7.3 percent for budget authority and an increase of \$249 million or 4.6 percent in outlays over fiscal 1988 levels. As in 1988, military construction received the largest percentage increase in the defense budget. Military construction represents the smallest major category of military spending and accounts for only 1.9 percent of the total military budget.

Military construction money is spent primarily on upkeep and new construction projects on military bases. The Northeast-Midwest region, which has 31 percent of all military installations, received only 23.8 percent of all military construction funds in fiscal 1987. This amount is a substantial increase from the 15.9 percent of construction funds received in 1986. The amount of funds invested in a base through military construction is a good indication of the military's commitment to keeping a base open.

Selected Defense Expenditures
(in thousands of dollars)

Region and State	1986 Military Payroll		1986 R & D		1987 Military Construction	
	Amount	Percent of U.S. Total	Amount	Percent of U.S. Total	Amount	Percent of U.S. Total
New England						
Connecticut	568,215	0.7	343,399	1.0	14,170	0.4
Maine	556,149	0.7	14,203	0.0	26,844	0.8
Massachusetts	899,952	1.1	2,451,879	7.5	57,198	1.7
New Hampshire	274,549	0.3	98,135	0.3	1,150	0.0
Rhode Island	359,373	0.4	340,651	1.0	17,268	0.5
Vermont	63,302	0.1	10,322	0.0	0	0.0
Total	2,721,540	3.3	3,258,589	10.0	116,630	3.5
Mid-Atlantic						
Delaware	202,109	0.2	12,175	0.0	396	0.0
Maryland	2,614,234	3.2	2,508,380	7.7	143,343	4.3
New Jersey	1,462,313	1.8	1,369,016	4.2	55,201	1.7
New York	1,426,235	1.7	2,004,384	6.1	283,460	8.5
Pennsylvania	2,364,432	2.9	582,217	1.8	61,464	1.9
Total	8,069,323	9.9	6,476,172	19.8	543,864	16.4
Midwest						
Illinois	2,031,375	2.5	197,983	0.6	43,107	1.3
Indiana	643,077	1.0	184,546	0.6	16,375	0.5
Iowa	182,636	0.2	126,343	0.4	2,322	0.1
Michigan	835,665	1.0	245,844	0.8	23,950	0.7
Minnesota	323,097	0.4	346,463	1.1	7,042	0.2
Ohio	1,748,692	2.1	1,129,932	3.5	45,164	1.4
Wisconsin	368,668	0.5	5,490	0.0	12,146	0.4
Total	6,333,210	7.8	2,236,601	6.8	150,106	4.5
South						
Alabama	1,933,795	2.4	831,155	2.5	56,279	1.7
Arkansas	643,332	0.8	1,014	0.0	23,194	0.7
District of Columbia	1,027,951	1.3	1,629,079	5.0	2,980	0.1
Florida	4,770,933	5.8	943,011	2.9	99,379	3.0
Georgia	2,999,721	3.7	61,874	0.2	212,425	6.4
Kentucky	1,313,357	1.6	14,299	0.0	4,740	0.1
Louisiana	1,131,897	1.4	14,943	0.0	35,912	1.1
Mississippi	1,227,178	1.5	63,953	0.2	48,697	1.5
North Carolina	2,831,139	3.5	180,854	0.6	146,922	4.4
Oklahoma	1,707,718	2.1	16,957	0.1	34,407	1.0
South Carolina	2,242,513	2.7	9,957	0.0	57,492	1.7
Tennessee	879,568	1.1	220,581	0.7	27,416	0.8
Texas	6,187,948	7.6	1,308,259	4.0	108,635	3.3
Virginia	8,396,265	10.3	2,317,836	7.1	90,026	2.7
West Virginia	203,394	0.2	4,797	0.0	14,325	0.4
Total	37,496,709	45.9	7,618,569	23.3	962,829	29.0

Selected Defense Expenditures (continued)
(in thousands of dollars)

Region and State	1986 Military Payroll		1986 R & D		1987 Military Construction	
	Amount	Percent of U.S. Total	Amount	Percent of U.S. Total	Amount	Percent of U.S. Total
West						
Alaska	620,252	0.8	10,107	0.0	168,835	5.1
Arizona	1,259,157	1.5	283,987	0.9	100,212	3.0
California	12,486,309	15.3	8,540,337	26.1	495,258	14.9
Colorado	1,635,723	2.0	1,249,244	3.8	38,090	1.1
Hawaii	1,970,970	2.4	11,496	0.0	87,370	2.6
Idaho	247,122	0.3	1,721	0.0	48,765	1.5
Kansas	906,293	1.1	75,976	0.2	52,510	1.6
Missouri	1,352,182	1.7	537,725	1.6	70,244	2.1
Montana	178,062	0.2	677	0.0	35,192	1.1
Nebraska	610,140	0.7	3,538	0.0	19,456	0.6
Nevada	411,636	0.5	110,140	0.3	50,000	1.5
New Mexico	851,744	1.0	1,433,751	4.4	49,160	1.5
North Dakota	292,070	0.4	172	0.0	64,095	1.9
Oregon	449,287	0.5	11,135	0.0	12,048	0.4
South Dakota	211,105	0.3	584	0.0	13,852	0.4
Utah	877,419	1.1	169,606	0.5	36,939	1.1
Washington	2,587,623	3.2	716,886	2.2	179,458	5.4
Wyoming	145,892	0.2	332	0.0	22,266	0.7
Total	27,092,986	33.2	13,157,414	40.2	1,543,750	46.5
Northeast	10,790,863	13.2	9,734,761	29.7	660,494	19.9
Midwest	6,333,210	7.8	2,236,601	6.8	150,106	4.5
Northeast and Midwest	17,124,073	21.0	11,971,362	36.6	810,600	24.4
South	37,496,709	45.9	7,618,569	23.3	962,829	29.0
West	27,092,986	33.2	13,157,414	40.2	1,543,750	46.5
South and West	64,589,695	79.0	20,775,983	63.4	2,506,579	75.6
U.S. Total	81,713,768	100.0	32,747,345	100.0	3,317,179	100.0

SOURCES: Staff calculations from Department of Defense, Atlas/Abstract for the United States and Selected Areas, Fiscal Year 1986 (Washington, D.C., 1987), p. 6; National Science Foundation, Federal Funds for Research and Development: Fiscal Years 1986, 1987, and 1988 (Washington, D.C., 1988), pp. 167; Department of Defense Budget for Fiscal Years 1988 and 1989, Construction Programs (C-1) (Washington, D.C., January 1988), pp. summary 6-7.

**Military Prime Contract Awards and
Total Department of Defense Expenditures**
(in millions of dollars)

Region and State	Prime Contract Awards Fiscal 1987	Percent of U.S. Total	Total Defense Expenditures Fiscal 1986	Percent of U.S. Total	1986 Population (in thousands)	Percent of U.S. Total
New England						
Connecticut	5,030	3.8	5,995	2.8	3,189	1.3
Maine	827	0.6	918	0.4	1,173	0.5
Massachusetts	8,675	6.6	9,637	4.5	5,832	2.4
New Hampshire	468	0.4	945	0.4	1,027	0.4
Rhode Island	477	0.4	745	0.3	975	0.4
Vermont	113	0.1	188	0.1	541	0.2
Total	15,590	11.8	18,428	8.6	12,737	5.3
Mid-Atlantic						
Delaware	189	0.1	428	0.2	633	0.3
Maryland	4,712	3.6	7,094	3.3	4,463	1.9
New Jersey	3,221	2.4	4,718	2.2	7,619	3.2
New York	9,591	7.3	11,279	5.3	17,772	7.4
Pennsylvania	3,774	2.9	6,512	3.0	11,888	4.9
Total	21,487	16.3	30,031	14.0	42,375	17.6
Midwest						
Illinois	1,823	1.4	3,509	1.6	11,552	4.8
Indiana	2,228	1.7	3,313	1.5	5,504	2.3
Iowa	595	0.5	751	0.3	2,851	1.2
Michigan	1,844	1.4	3,170	1.5	9,145	3.8
Minnesota	2,401	1.8	2,595	1.2	4,214	1.7
Ohio	4,516	3.4	6,929	3.2	10,752	4.5
Wisconsin	937	0.7	1,331	0.6	4,785	2.0
Total	14,344	10.9	21,598	10.1	48,803	20.2
South						
Alabama	1,609	1.2	3,408	1.6	4,052	1.7
Arkansas	697	0.5	1,474	0.7	2,372	1.0
District of Columbia	1,261	1.0	1,732	0.8	626	0.3
Florida	5,733	4.4	10,366	4.8	11,675	4.8
Georgia	3,458	2.6	6,438	3.0	6,104	2.5
Kentucky	425	0.3	1,786	0.8	3,729	1.5
Louisiana	1,469	1.1	2,547	1.2	4,501	1.9
Mississippi	1,375	1.0	2,599	1.2	2,625	1.1
North Carolina	1,210	0.9	3,836	1.8	6,333	2.6
Oklahoma	588	0.4	2,400	1.1	3,305	1.4
South Carolina	561	0.4	2,736	1.3	3,377	1.4
Tennessee	957	0.7	1,937	0.9	4,803	2.0
Texas	8,545	6.5	16,904	7.9	16,685	6.9
Virginia	7,757	5.9	13,580	6.3	5,787	2.4
West Virginia	124	0.1	264	0.1	1,918	0.8
Total	35,769	27.2	72,007	33.5	77,892	32.3

**Military Prime Contract Awards and
Total Department of Defense Expenditures (continued)**
(in millions of dollars)

Region and State	Prime Contract Awards Fiscal 1987	Percent of U.S. Total	Total Defense Expenditures Fiscal 1986	Percent of U.S. Total	1986 Population (in thousands)	Percent of U.S. Total
West						
Alaska	527	0.4	1,187	0.6	534	0.2
Arizona	3,184	2.4	3,888	1.8	3,319	1.4
California	24,430	18.6	40,304	18.8	26,981	11.2
Colorado	2,714	2.1	3,528	1.6	3,267	1.4
Hawaii	454	0.3	2,486	1.2	1,062	0.4
Idaho	64	0.0	306	0.1	1,002	0.4
Kansas	1,240	0.9	2,844	1.3	2,460	1.0
Missouri	5,948	4.5	6,801	3.2	5,066	2.1
Montana	93	0.1	238	0.1	819	0.3
Nebraska	248	0.2	767	0.4	1,598	0.7
Nevada	232	0.2	552	0.3	963	0.4
New Mexico	578	0.4	1,400	0.7	1,479	0.6
North Dakota	154	0.1	516	0.2	679	0.3
Oregon	230	0.2	689	0.3	2,698	1.1
South Dakota	50	0.0	328	0.2	708	0.3
Utah	1,183	0.9	1,685	0.8	1,665	0.7
Washington	3,060	2.3	5,006	2.3	4,462	1.9
Wyoming	46	0.0	236	0.1	507	0.2
Total	44,435	33.8	72,761	33.9	59,269	24.6
Northeast	37,077	28.2	48,459	22.6	55,112	22.9
Midwest	14,344	10.9	21,598	10.1	48,803	20.2
Northeast and Midwest	51,421	39.1	70,057	32.6	103,915	43.1
South	35,769	27.2	72,007	33.5	77,892	32.3
West	44,435	33.8	72,761	33.9	59,269	24.6
South and West	80,204	60.9	144,768	67.4	137,161	56.9
U.S. Total	131,625	100.0	214,825	100.0	241,076	100.0

SOURCES: U.S. Department of Defense, Prime Contract Awards By State (Washington, D.C.: U.S. Government Printing Office, 1988), p. 4; U.S. Department of Commerce, Consolidated Federal Funds Report (Washington, D.C.: U.S. Government Printing Office, March 1987), p. 6; and Bureau of the Census, Current Population Reports, P-25 Series (Washington, D.C.: U.S. Government Printing Office, 1987), Table 6.



SECTION SIX: NATURAL AND PHYSICAL RESOURCES

The Northeast-Midwest region, the traditional industrial heartland of the U.S., contains abundant natural and physical resources that provide economic opportunities and make the area a desirable place to live. The region's natural resources include extensive farmland, minerals, forests, river systems, the Chesapeake Bay, and the Great Lakes. The best uses of these resources require a careful balance between economic development and environmental protection.

This section covers the president's budget request as it relates to management and protection of water resources, air-quality protection, and forest management. The president proposes an 11.5 percent reduction in the budget of the Environmental Protection Agency (EPA), led by a sharp \$804 million cut in budget authority for the construction grants program for fiscal 1989. The president's intention is to phase out the program early and spend \$6 billion less than that authorized in the Clean Water Act Amendments of 1987, enacted over his veto. The cuts in construction grants funding is offset partially by a \$159 million increase in budget authority for other EPA programs, including \$100 million for Superfund.

The president's request would reduce budget authority for Great Lakes and Chesapeake Bay water-quality programs operated by several federal agencies by \$15.6 million and \$18.1 million, respectively. While funding for EPA's project offices would remain about the same as last year, other federal programs vital for these bodies of water would end or suffer deep cuts. The termination of NOAA's Sea Grants and Coastal Zone Management program would hamper important water-quality efforts in both the Chesapeake Bay and Great Lakes.

The administration has requested an additional \$1.775 billion in budget authority for the Clean Coal Technology (CCT) program in the Department of Energy beginning in fiscal 1990 (\$575 million in fiscal 1990, \$600 million in fiscal 1991, and \$600 million in fiscal 1992). In the past three years, Congress has appropriated nearly \$1 billion for this program, including an advanced appropriation of \$525 million for fiscal 1989. Although the administration claims that this funding is needed to fulfill a commitment to Canada to develop technologies that control acid rain, others question whether CCT demonstrations will have a significant, near-term effect on pollution unless specific emission reductions are required for the CCT program.

The highlights of the administration's proposal include the following:

- A \$1.5 billion request is made for wastewater construction grants, compared to \$2.3 billion appropriated in fiscal 1988 and to the \$2.4 billion authorized for fiscal 1989. The administration's request assumes an overall program ceiling of \$12 billion, rather than the \$18 billion authorized in the 1987 Clean Water Act amendments.

BUDGET SUMMARY
(in millions of dollars)

Function		1981 Actual	1987 Actual	1988 Estimate	1989 Request	Percent Change	
						1988-1989	
						Nominal	Adjusted for Inflation
Water Resources and Treatment Development							
301	Army Corps of Engineers ¹						
	Budget Authority	3,074	3,121	3,228	3,298 ²	2.2	-1.6
	Outlays	3,121	2,757	3,197	3,291 ²	2.9	-0.8
301	Bureau of Reclamation ³						
	Budget Authority	788	915	1,005	1,004	-0.1	-3.8
	Outlays	766	926	877	1,010	15.2	10.9
301	Soil Conservation Service ⁴						
	Budget Authority	192	198	187	116	-38.0	-40.2
	Outlays	205	227	235	142	-39.6	-41.8
452	Farmers Home Administration ⁵						
	Budget Authority	200	109	109	75	-31.2	-33.7
	Outlays	269	157	163	140	-14.1	-17.3
304	EPA Wastewater Construction Grants						
	Budget Authority	1,605	2,361	2,304	1,500	-34.9	-37.3
	Outlays	3,881	2,920	2,566	2,378	-7.3	-10.7
Environmental Protection Agency							
304	Superfund						
	Budget Authority	74	1,411	1,128	1,600	41.8	36.7
	Outlays	8	541	778	1,205	54.9	49.2
304	Abatement, Control, and Compliance						
	Budget Authority	535	610	606	624	3.0	-0.8
	Outlays	559	576	594	632	6.4	2.5
271	Research and Development						
304	Budget Authority	250	198	186	197 ⁶	5.9	2.0
	Outlays	247	206	195	171	-12.3	-15.5

BUDGET SUMMARY (continued)
(in millions of dollars)

Function		1981 Actual	1987 Actual	1988 Estimate	1989 Request	Percent Change	
						1988-1989	
						Adjusted for Nominal Inflation	
304	Salaries and Expenses						
	Budget Authority	562	727	765	800 ⁷	4.6	0.7
	Outlays	543	674	749	792	5.7	1.9

- ¹ Budget authority and outlays include deductions for offsetting receipts from the public: \$120 million in fiscal 1987; \$243 million in fiscal 1988; and \$251 million in fiscal 1989.
- ² Includes \$10 million proposed for later transmittal under proposed legislation.
- ³ Total federal funds.
- ⁴ Water resource management and improvement.
- ⁵ Rural water and waste disposal grants.
- ⁶ Assumes passage of additional authorizing legislation of \$50 million for energy supply R&D and \$147 million for pollution control and abatement.
- ⁷ Assumes passage of additional authorizing legislation of \$289 million.

- An \$83 million reduction is requested in the Soil Conservation Service's (SCS) programs for flood prevention, watershed planning, emergency, and small watershed operations, in place of requests for SCS elimination in recent administration budgets.
- A \$200 million increase is requested in Superfund spending to \$1.7 billion, including \$100 million in carryover from fiscal 1988.

A. Water Supply and Treatment

Federal water resource programs include the construction and operating budgets of the U.S. Army Corps of Engineers, the Interior Department's Bureau of Reclamation (BuRec), the Soil Conservation Service's (SCS) small watershed programs, the Farmers Home Administration's (FmHA) wastewater treatment loans and grants for small communities, and the Environmental Protection Agency's wastewater treatment grants for municipalities.

Cumulative budget authority for water supply and treatment under these five programs would decrease \$840 million (8.8 percent) from \$6.833 billion in fiscal 1988 to \$5.993 billion in fiscal 1989, while outlays would decrease \$77 million from \$7.038 billion in fiscal 1988 to \$6.961 billion in fiscal 1989. The reduced budget authority for the federal water resources reflects in particular a proposed \$804 million reduction in grants to construct publicly owned wastewater treatment facilities, and continuing administration efforts to limit, although not eliminate, SCS and FmHA water resources grant and loan programs. The Northeast-Midwest region would receive about 37 percent of total national expenditures for water resources and treatment.

Army Corps of Engineers

Both budget authority and outlays for the Corps would increase from \$3.2 billion in fiscal 1988 to \$3.3 billion in fiscal 1989. Outlays for construction would increase slightly from \$1.116 billion in fiscal 1988 to \$1.168 billion in fiscal 1989. The budget allows for the construction of six new flood control projects, two of which are in the Northeast-Midwest. The 1989 budget preserves the higher level of construction activity that began with the passage of H.R. 6, which provided the first major reauthorization of the Army Corps of Engineers' civil works program since 1970.

In addition to providing authorization for new projects, H.R. 6 affected the Corps' budget in two ways. First, the law included major reforms that allocate a greater share of the costs to local beneficiaries of the projects. The budget estimates above reflect only federal costs. When the local share is considered, the total Corps budget for fiscal 1989 exceeds \$3.5 billion. Second, the budget incorporates two new sources of revenue for Corps programs. The Inland Waterways Fund gradually increases the tax on fuel used by commercial barges on inland waterways from the current 10 cents to 20 cents a gallon by 1995. The fiscal 1989 budget anticipates \$78 million in revenues from the tax. In addition, H.R. 6 imposes a new tax of 4 cents per \$100 of value of commercial cargo loaded or unloaded at U.S. ports, which is expected to raise an additional \$156 million in fiscal 1989. About 14 percent of the Corps' program will be financed by these sources, up from 2 percent two years ago.

The Corps spent 24 percent of its budget within states of the Northeast-Midwest region in fiscal 1987. That proportion has slowly increased in recent years, up from an historical average of about 20 percent.

Bureau of Reclamation

Budget authority for the Bureau of Reclamation would decline slightly from \$1.005 billion in fiscal 1988 to \$1.004 billion in fiscal 1989, while outlays would increase \$133 million, from \$877 million to \$1.010 billion. Budget authority for construction would decrease \$6 million from \$704 million to \$698 million over the same period. The bulk of the BuRec construction budget is dedicated to large projects in Arizona, California, and Utah.

The Bureau of Reclamation, limited by law to operation in 17 western states, provides federal subsidies for irrigation and industrial and urban water supply projects. Cost-sharing arrangements are negotiated on a project-by-project basis, with the local share usually financed through long-term, low-interest loans. The administration has not proposed any uniform cost-sharing for BuRec projects similar to that of the Corps of Engineers' civil works program.

The Bureau is in the process of a reorganization announced last fall that will reduce the personnel level in the office of the Commissioner in Washington, D.C., and expand its Denver, Colorado, office. These changes, elements of which have not yet received congressional endorsement, would steer BuRec away from its tradition of large, capital-intensive water projects to a broader-based water management program, with particular emphasis on helping western states to develop and carry out groundwater management and protection programs. The agency would continue to work only in the western states.

SCS and FmHA

In its last two budget requests, the administration has proposed phasing out SCS small watershed programs and the FmHA rural sewer grants program. It has argued that these programs are too small to affect national water policy, and could better be undertaken by local governments. While Congress has resisted rescission requests, approved budgets and appropriations for these programs nevertheless have declined appreciably.

This year's budget again requests substantial reductions in SCS and FmHA programs. SCS small watershed programs would drop from \$187 million in fiscal 1988 to \$116 million in fiscal 1989. FmHA rural wastewater treatment grants and loans programs would decline from \$109 million in fiscal 1988 to \$75 million in fiscal 1989. In fiscal 1987 the Northeast and the Midwest received 58 percent and 35 percent of these program funds.

SCS small watershed programs are designed to prevent damage from floodwater, to control sediment and erosion, to use and dispose of waste, and to conserve and properly use the land. FmHA's water, sewer, and waste disposal grants and loans provide assistance to rural areas to alleviate health hazards, promote stability of rural areas by meeting the need for new and improved rural water and waste-disposal systems, and meet national safe drinking water and clean water standards.

The administration also has proposed credit reforms by which all loans (including FmHA's water and sewer loans) would be obligated and disbursed from a central account in the Department of the Treasury rather than from each agency. Further, the reforms would require that the agency charge the total loan subsidy to the fiscal year in which the loan is made, rather than allocating it proportionally over the loan years. Congress has not yet acted upon this proposal, which could further limit loan number and size.

EPA Wastewater Treatment Grants

The long battle between the administration and Congress continues over the future of the multibillion dollar wastewater treatment grant program, ostensibly won by Congress one year ago when it overrode the president's veto of the Clean Water Act amendments. Congress authorized a phase-out of the grants in 1994 with total federal spending during the period of \$18 billion. It rejected administration efforts to limit spending to \$12 billion and to end the program sooner. Notwithstanding, the president's fiscal 1989 budget request is for only \$1.5 billion in budget authority (half in direct grants and half to capitalize state revolving loan funds), instead of \$2.4 billion as authorized by the law. Further, the president plans an end to the program by 1993. If the controversial but recently approved letter of credit method of funding state revolving loan programs is followed, the rate of outlays for the balance of federal construction grants funding will be stretched out greatly.

The construction program provides 55-percent federal matching grants to help states and localities build or upgrade sewage treatment plants to meet federal water-quality standards under the Clean Water Act (CWA). EPA's latest biennial needs-assessment survey estimated that \$74.4 billion would have to be invested in improved sewage treatment between 1986 and the year 2000 to achieve the national goal of "fishable, swimmable" waters.

The 1986 estimate of needs to the year 2000 was down \$34.0 billion from the 1984 estimate, due mainly to more documentation required to demonstrate need, but also to the completion of some construction projects. States were invited, however, to submit supplemental estimates of need that failed to meet the heightened documentation requirements. Six states in the Northeast and Midwest were among 12 states nationwide that did so. The six states in the region (IN, MD, NJ, NY, OH, PA) claimed an added total need of \$8.6 billion, boosting its total expected needs to year 2000 to \$48.8 billion.

The wastewater treatment construction needs of the Northeast-Midwest region remained constant at about 54 percent of the national total in both the 1984 and the 1986 needs surveys. In fiscal 1987 the region actually received 57.8 percent of the allocations under the program, up from 51.5 percent in fiscal 1986.

A phase-out of federal grants by 1994, approved by Congress, will mean that state and local governments nationwide will have to spend at least \$56.4 billion to meet federal clean water standards over the 14-year period, and even more if the administration's plan prevails. Assuming its proportion of future federal allocations matches documented need (54 percent), Northeast-Midwest region states and localities must generate at least \$30.5 billion for wastewater treatment construction between fiscal 1986 and fiscal 2000 (assuming total federal expenditures of \$18.0 billion) and as much as \$42.4 billion if

additional state construction needs claimed are valid and federal dollars are limited to \$12.0 billion.

B. Environmental Protection

This section covers the budget for the Environmental Protection Agency (excluding wastewater construction grants), focusing on Superfund and groundwater protection. In addition it covers the Great Lakes and Chesapeake Bay programs of EPA, the National Oceanic and Atmospheric Administration (NOAA), the U.S. Fish and Wildlife Service, and the Soil Conservation Service. It discusses acid rain initiatives, including funding for the Department of Energy's clean coal program.

Environmental Protection Agency

Overall budget authority for the agency would decrease \$645 million (11.5 percent) from \$5.424 billion in fiscal 1988 to \$4.779 billion in fiscal 1989. Excluding wastewater treatment, budget authority for EPA programs would rise \$159 million from \$3.120 billion in fiscal 1988 to \$3.279 billion under the president's request. Increases in Superfund budget authority (\$100 million), the Leaking Underground Storage Tank (LUST) Trust Fund (\$35 million), and research and development (\$11 million) account for most of the rise. In the overall budget, however, they are more than offset by the steeply diminished request for wastewater construction grants.

The president's budget authority request for Superfund is \$371 million over actual fiscal 1988 levels. EPA anticipates a carryover of \$100 million from prior year funds for fiscal 1989 which would increase total available budget authority to \$1.7 billion. The cost of cleanup is being pushed up by new requirements under the 1986 Superfund amendments, however. More than 60 percent of the abandoned hazardous waste dumps on Superfund's national priority list (NPL) are located in the Northeast-Midwest region.

While budget authority for research and development at EPA would increase, outlays would drop from \$195 million to \$171 million between fiscal 1988 and 1989 under the president's request. Outlays for abatement, control, and compliance (which encompass regulation and enforcement programs) would increase from \$594 million to \$632 million. Budget authority for research would increase from \$186 million to \$197 million, and for abatement, control, and compliance would increase from \$606 million to \$624 million.

Groundwater Protection

Groundwater protection activities of the federal government are diffused through several EPA programs. Most of these activities do not appear as line items in either EPA's or OMB's budget documents. The administration has maintained that a substantial proportion of EPA's budget goes for groundwater protection, and counts elements of programs such as the Resource Conservation and Recovery Act (RCRA) and Superfund whose main or original intent was not groundwater protection.

Thus EPA's groundwater protection activities are skewed heavily toward cleanup of contamination rather than its prevention. Comprehensive efforts to stop groundwater contamination are the responsibility of the agency's Office of

Ground-Water Protection (OGWP). Its budget request in fiscal 1989 is \$6.9 million, virtually unchanged from fiscal 1988. This figure is less than one-sixth of 1 percent of the total agency budget request of \$4.779 billion. In contrast, the \$1.6 billion for Superfund represents about one-third of EPA's total budget. More will be spent on any one of several Superfund sites, moreover, than on a full year's budget for the OGWP.

Great Lakes Programs

A combination of federal programs focuses on Great Lakes research and restoration, including the EPA Great Lakes National Program Office (GLNPO) in Chicago; the EPA Large Lakes Laboratory in Grosse Ile, Michigan; NOAA's Great Lakes Environmental Research Laboratory (GLERL) in Ann Arbor, Michigan; the Coastal Zone Management and Sea Grants programs, also administered by NOAA; and the Department of the Interior's Great Lakes Fisheries Research Laboratory in Ann Arbor. The president's request would reduce budget authority for these combined Great Lakes programs from \$32.7 million in fiscal 1988 to \$17.1 million in 1989.

As in every administration proposal since 1981, the fiscal 1989 budget proposes to end the Sea Grants program, which provides marine research and extension service through universities, and the Coastal Zone Management grants to states with federally approved coastal environmental programs. Proposed cuts from the NOAA Great Lakes laboratory, GLERL, the Department of the Interior Great Lakes Fisheries Laboratory, and from EPA's Great Lakes National Program Office would not be as substantial.

The Great Lakes, with 95 percent of the nation's surface freshwater, represent one of the region's greatest natural resources. The research and pollution control work performed by the network of federal Great Lakes programs not only is essential to cleanup, but offers research results and models for developing cleanup initiatives to other coastal areas.

While long-term state and federal expenditures for wastewater treatment have helped to reduce phosphorus pollution, toxic contamination continues to threaten the health of the ecosystem and residents of the region. Principal sources of toxins include direct industrial and municipal discharges; nonpoint pollution from city streets, farmlands, and leaking hazardous waste landfills; atmospheric deposition--that contributes as much as 90 percent of the PCBs in Lake Superior; and toxic-contaminated sediments. The U.S.-Canadian International Joint Commission has identified 42 "areas of concern" where unusually high levels of toxic contamination have persisted over the past ten years.

In 1987 Congress reauthorized the Clean Water Act, establishing a line item for the Great Lakes National Program Office so that it may continue to play a leading role in coordinating Great Lakes monitoring, research, and cleanup. It also expanded GLNPO's responsibilities and increased its budget by \$11 million to approximately \$16 million.

Congress approved a \$11.3 million GLNPO budget for fiscal 1988. It would use \$4.9 million for existing programs; the other \$6.4 million would implement the toxics provision of the amendment, begin establishing an air toxics research program, and purchase a new research vessel. In its 1989 budget justification, the agency reported that it intended to spend only \$11 million

of the \$11.3 million appropriated by Congress for fiscal 1988 because the appropriation was received so late in the year. The \$9.4 million fiscal 1989 request uses \$11 million as a base and cuts \$1.5 million because the research vessel required a one-time appropriation only. If the office were to receive full funding, the administration request would be \$15.9 million.

Great Lakes Programs
(in millions of dollars)

Function	Agency	Fiscal 1988 Expenditures	Fiscal 1989 Request
304	Environmental Protection Agency		
	Great Lakes National Program Office ¹	11.0	9.4
	Great Lakes Grosse Isle Laboratory	1.9	2.0
306	Dept. of Commerce, NOAA		
	Great Lakes Environmental Research Lab	4.5	3.0
	Sea Grants ²	6.5	0.0
	Coastal Zone Management ³	5.6	0.0
303	Dept. of the Interior, Fish & Wildlife		
	Great Lakes Fisheries Laboratory	<u>3.2</u>	<u>2.7</u>
Total		32.7	17.1

¹The \$11 million for fiscal 1988 includes a one time appropriation of \$1.5 million in order to purchase a new research vessel.

²Great Lakes states with Sea Grant colleges include Illinois and Indiana (shared program), Michigan, Minnesota, New York, Ohio, and Wisconsin. Fiscal 1988 estimates are based on actual fiscal 1987 expenditures, as specific state information was not available for fiscal 1988. Funding for the entire Sea Grants program was slightly higher in fiscal 1987 than in 1988, therefore actual fiscal 1988 expenditures may be less.

³Great Lakes states receiving Coastal Zone Management Grants include Michigan, New York, Pennsylvania, and Wisconsin. Fiscal 1988 estimates are based on fiscal 1987 expenditures, as specific state information was not available for fiscal 1988. Funding for the entire Coastal Zone Management Grants program was slightly higher in fiscal 1987 than in 1988, therefore actual fiscal 1988 expenditures may be less.

SOURCES:—EPA, Budget Justification, Fiscal 1989 (Washington, D.C., 1988); Department of Commerce, National Oceanic and Atmospheric Administration, Fiscal Year 1989 Budget Summary (Washington, D.C., 1988); and Department of the Interior, The Interior Budget in Brief, Fiscal Year 1989 Highlights (Washington, D.C., February 1988).

Chesapeake Bay Programs

Similar to Great Lakes cooperative working arrangements, several federal agencies have programs designed to restore the water quality and declining fisheries of the Chesapeake Bay. Some of these programs include EPA's Chesapeake Bay Liaison Office, NOAA's Chesapeake Bay and Striped Bass Studies; the Sea Grants, Coastal Zone Management, and Habitat Research programs, also administered by NOAA; the Department of the Interior's Fish & Wildlife Service Chesapeake Bay Activities and Emergency Striped Bass Study; and the Department of Agriculture's Soil Conservation Service technical assistance program. The president's budget request would reduce the budget for these combined Chesapeake Bay programs from \$31.4 million in fiscal 1988 to \$13.3 million in 1989.

Like the Great Lakes, the Chesapeake Bay would suffer from the recommended termination of the Sea Grants program, which provides marine research and extension service through universities, and the Coastal Zone Management grants to states with federally approved coastal environmental programs. The administration proposed to zero out all other NOAA bay programs as well. While no funds were earmarked for Soil Conservation Service's Chesapeake Bay project, it was not specifically recommended for termination. This program funds 31 positions that provide technical assistance to farmers for controlling agricultural runoff.

Other federal Chesapeake Bay programs would not fare as badly. The trend of increased funding for the EPA's Chesapeake Bay program would continue. Funding for the Army Corps of Engineers' Chesapeake Bay shoreline erosion, drought management, and bay modelling studies would decline by 20 percent. While the Fish and Wildlife Service's Emergency Striped Bass study would be zeroed out, the regular bay activities would be level-funded.

The Chesapeake Bay is the largest estuary in the United States and biologically one of the most productive systems in the world. However, increased population, agricultural runoff, and industrial discharges have caused significant declines in water quality and fish reproduction. In 1976, Congress authorized an indepth study of the bay's decline, establishing the Chesapeake Bay Program under EPA. Other federal agencies plus EPA and the governors of the states in the region joined efforts under the Chesapeake Bay Agreement, first signed in 1983 and reauthorized in 1987, to coordinate research, monitoring, and cleanup.

Chesapeake Bay Programs
(in millions of dollars)

Function	Agency	Fiscal 1988 Expenditures	Fiscal 1989 Request
304	Environmental Protection Agency		
	Chesapeake Bay Program	11.4	11.5
306,	Dept. of Commerce, NOAA		
376	Chesapeake Bay Studies	1.6	0.0
	Sea Grants ¹	2.2	0.0
	Coastal Zone Management ²	4.8	0.0
	Habitat Research	5.1	0.0
	Striped Bass Study	0.5	0.0
	Oyster Reseeding	1.9	0.0
303	Fish & Wildlife (DOI)		
	Chesapeake Bay Activities	1.0	1.0
	Emergency Striped Bass Study	0.5	0.0
302	Soil Conservation Service (DOA)		
	Chesapeake Bay Project	1.1	0.0
301	Army Corps of Engineers (DOD)		
	Chesapeake Bay projects	<u>1.0</u>	<u>0.8</u>
Total		31.4	13.3

¹ Chesapeake Bay states with Sea Grants programs include Maryland and Virginia, fiscal 1987 figures. Fiscal 1988 figures not available, but expected to be slightly lower than fiscal 1987.

² Chesapeake Bay states receiving Coastal Zone Management Grants include Maryland, Pennsylvania, and Virginia, fiscal 1987 figures. Fiscal 1988 figures not available, but expected to be slightly lower than fiscal 1987.

SOURCES: EPA, Fiscal 1989 Budget Justification (Washington, D.C.: 1988); Department of Commerce, National Oceanic and Atmospheric Administration, Fiscal Year 1989 Budget Summary (Washington, D.C., 1988); Department of the Interior, The Interior Budget in Brief, Fiscal Year 1989 Highlights (Washington, D.C., 1988); Department of Agriculture, 1989 Budget Summary (Washington, D.C., 1988); and Governor Schaefer's Washington Office, Preliminary Analysis of the Administration Budget, Fiscal Year 1989 (Washington, D.C., February 1988).

Acid Rain Controls and Clean Coal Technologies

The Clean Coal Technology (CCT) program in the Department of Energy (DOE) was established to demonstrate technologies that use high-sulfur coal in an environmentally acceptable way. Supporters of the program claim that these new technologies will generate electricity and control air pollution at costs well below those of conventional technologies. Furthermore, the administration maintains that the program is necessary to fulfill an agreement with Canada to spend \$2.5 billion on clean coal demonstrations over five years.

However, funding for this program has become controversial. The main question is the speed with which emission reductions could be expected as a result of this technology development. Environmentalists contend that few utilities actually will use these new technologies unless regulations are adopted requiring controls. In addition, Canada contends that most of the program's money in the past has gone to technologies unlikely to result in near-term emission reductions. Although recent changes in program direction have given more attention to near-term retrofit technologies, DOE's solicitation for projects under Clean Coal II continues to emphasize costly, long-term energy technologies such as gasification.

Funding Summary of the Clean Coal Technology Program
(budget authority in millions of dollars)

Program	Fiscal							Total
	1986	1987	1988	1989	1990	1991	1992	
Clean Coal I ¹	99	149	149					398
Clean Coal II ²			50	525	575	600	600	2,350
Total	99*	149*	199	525	575	600	600	\$2,748

* Not counted by administration toward Lewis-Davis commitment.

¹Appropriated in fiscal 1986.

²Fiscal 1990-1992 figures are advance appropriations requested in this year's budget.

Numerous bills have been introduced into Congress that would control acid rain directly by requiring certain reductions in emissions of sulfur oxides (SO_x) and nitrogen oxides (NO_x) in a specified period of time. The main Senate bill, sponsored by Senator George Mitchell (D-ME), would lower emissions of SO_x by 12 million tons in ten years and would restrict the growth of emissions in the future. Although S. 1899 would not offer financial assistance in the form of national cost-sharing, it would provide the balance of the funding requested by the administration for the Clean Coal program.

The leading House proposal, H.R. 2666, would require a 10-million ton reduction in ten years but would not place a cap on future emissions. H.R. 2666 also would provide financial assistance where necessary to prevent electricity rate increases from exceeding 10 percent. This fund would be financed through a small 1/4 mill fee on electricity.

U.S. Forest Service

For fiscal 1989, the administration proposes \$2.01 billion in budget authority for the U.S. Forest Service, excluding trust funds, down from \$2.15 billion in fiscal 1988. The four main Forest Service programs are: the National Forest System; Construction (in the national forests); Research; and State and Private Forestry (S&PF).

Funding for the National Forest System and Construction, spent almost entirely in western states, would account for over two-thirds of the nontrust Forest Service budget. However, because most of the forestland in the Northeast-Midwest region is owned either by states or private, noncorporate landowners, the programs of greatest value to this region are Research and S&PF. Together, these programs would equal about 8 percent of the total fiscal 1989 request.

The Research program would be reduced from \$135.5 million to \$129.3 million. This program studies ways of protecting forests from threats such as Dutch elm disease, gypsy moth infestation, and fire. It also seeks better methods for harvesting forest resources and producing forest products through its Forest Products Laboratory in Madison, Wisconsin.

The administration's proposed reduction in S&PF from \$76.5 million to \$34.8 million would be the largest percentage cut in any Forest Service program (54.5 percent). S&PF helps states and private landowners in managing forest resources productively and protecting them from fire, pests, and disease. Also, for fiscal 1988 Congress created a special program in S&PF to help reduce the trade deficit by increasing markets for forest products.

Federal Water Resources Spending: Fiscal 1967
(in thousands of dollars)

Region and State	Corps	Farmers Home	Soil	Total	Per Capita Average
	of Engineers and Bureau of Reclamation ¹	Administration ² Rural Water	Conservation Service Watershed ³ Operations		
New England					
Connecticut	5,918	5,083	1,805	12,806	4.02
Maine	2,807	9,800	2,043	14,650	12.49
Massachusetts	16,075	9,236	7,062	32,373	5.55
New Hampshire	4,025	3,893	2,106	10,024	9.76
Rhode Island	1,743	2,904	79	4,726	4.85
Vermont	2,656	5,049	3,967	11,672	21.57
Total or Average	33,224	35,965	17,062	86,251	6.77
Mid-Atlantic					
Delaware	35,148	0	844	35,992	56.86
Maryland	58,187	2,479	433	61,099	13.69
New Jersey	38,147	7,660	2,458	48,265	6.33
New York	41,475	9,761	4,810	56,046	3.15
Pennsylvania	72,672	24,064	5,869	102,605	8.63
Total or Average	245,629	43,964	14,414	304,007	7.17
Midwest					
Illinois	163,997	8,258	5,613	177,868	15.40
Indiana	11,154	8,615	788	20,557	3.73
Iowa	31,793	8,716	6,033	46,542	16.32
Michigan	45,926	15,496	3,551	64,973	7.10
Minnesota	48,336	11,696	2,271	62,303	14.78
Ohio	56,770	16,289	3,932	76,991	7.16
Wisconsin	29,145	5,014	511	34,670	7.25
Total or Average	387,121	74,084	17,086	478,291	9.80
South					
Alabama	73,022	10,014	2,647	85,683	21.15
Arkansas	127,618	24,831	4,567	157,016	66.20
District of Columbia	2,064	0	0	2,064	3.30
Florida	73,046	13,754	622	87,422	7.49
Georgia	60,209	14,368	1,785	76,362	12.51
Kentucky	96,303	24,156	2,038	122,497	32.85
Louisiana	336,882	20,841	4,991	362,714	80.59
Mississippi	116,841	17,477	21,201	155,519	59.25
North Carolina	44,970	22,923	3,237	71,130	11.23
Oklahoma	70,096	20,839	13,061	103,996	31.47
South Carolina	31,891	21,100	3,247	56,238	16.65
Tennessee	53,020	5,309	3,415	61,744	12.86
Texas	168,088	19,603	15,847	203,538	12.20
Virginia	34,863	15,794	4,976	55,633	9.61
West Virginia	116,532	8,838	9,728	135,098	70.44
Total or Average	1,405,445	239,847	50,274	1,695,566	21.77

Federal Water Resources Spending: Fiscal 1987 (continued)
(in thousands of dollars)

Region and State	Corps of Engineers and Bureau of Reclamation ¹	Farmers Home Administration ² Rural Water	Soil Conservation Service Watershed Operations ³	Total	Per Capita Average
West					
Alaska	36,255	599	524	37,378	70.00
Arizona	250,428	6,317	3,427	260,172	78.39
California	259,780	10,385	9,296	279,461	10.36
Colorado	96,679	722	901	98,302	30.09
Hawaii	13,074	0	4,099	17,173	16.17
Idaho	8,192	2,165	1,062	11,419	11.40
Kansas	24,645	3,948	5,691	34,284	13.94
Missouri	124,354	5,817	3,439	133,610	26.37
Montana	16,731	89	772	17,592	21.48
Nebraska	26,592	511	3,409	30,512	19.09
Nevada	9,980	0	196	10,176	10.57
New Mexico	48,978	400	8,790	58,168	39.33
North Dakota	54,125	2,663	404	57,192	84.23
Oregon	13,933	1,853	1,232	17,018	6.31
South Dakota	47,363	2,162	174	49,699	70.20
Utah	89,955	1,079	648	91,682	55.06
Washington	205,092	5,552	2,620	213,464	47.84
Wyoming	42,067	119	220	42,406	83.64
Total or Average	1,368,223	44,381	5,498	1,418,102	23.93
Northeast	278,853	79,929	61,026	419,808	7.62
Midwest	387,121	74,084	17,086	478,291	9.80
Northeast and Midwest	665,974	154,013	78,112	898,099	8.64
South	1,405,445	239,847	50,274	1,695,566	21.77
West	1,368,223	44,381	5,498	1,418,102	23.93
South and West	2,773,668	284,228	55,772	3,113,668	22.70
U.S. Total	3,439,642	438,241	133,884	4,011,767	16.64

¹ Combined total fiscal 1987 expenditures for the civil works functions of the U.S. Army Corps of Engineers and the U.S. Department of Interior's Bureau of Reclamation water projects, including operation and maintenance.

² Water, sewer, and waste disposal loans and grants awarded by the U.S. Department of Agriculture's Farmers Home Administration in fiscal 1987.

³ Flood prevention, watershed planning, emergency, and small watershed operations.

⁴ Does not include funds for Puerto Rico or the Territories.

SOURCES: U.S. Army Corps of Engineers, Engineer Automation Support Activity Civil Works Expenditures by State CECW-B-3 (Washington, D.C., December 1981), unpaginated; U.S. Department of Agriculture, Farmers Home Administration, Status of Loan and Grant Obligation/Allotments or Distribution, Fiscal Year 1987 (Washington, D.C., January 1988), unpaginated; "Fiscal Year 1987 Obligations," unpublished data, for the Soil Conservation Service Watershed Program, Washington, D.C., November 1987.

EPA Wastewater Treatment Construction Grants Program: Fiscal 1987
(in millions of dollars)

Region and State	Fiscal 1987 Outlays	Percent of Total	Needs to Year 2000 ¹	Percent of Total
New England				
Connecticut	46.0	1.6	1,166	1.6
Maine	25.3	0.9	321	0.4
Massachusetts	85.1	3.0	4,169	5.6
New Hampshire	27.6	1.0	897	1.2
Rhode Island	15.0	0.5	388	0.5
Vermont	9.9	0.3	155	0.2
Total	208.9	7.3	7,096	9.5
Mid-Atlantic				
Delaware	18.3	0.6	68	0.1
Maryland	66.2	2.3	866	1.2
New Jersey	101.7	3.6	3,647	4.9
New York	409.1	14.3	12,456	16.7
Pennsylvania	104.7	3.7	1,713	2.3
Total	700.0	24.4	18,750	25.2
Midwest				
Illinois	136.5	4.8	2,975	4.0
Indiana	98.2	3.4	1,618	2.2
Iowa	36.2	1.3	736	1.0
Michigan	123.4	4.3	3,200	4.3
Minnesota	66.0	2.3	1,084	1.5
Ohio	217.2	7.6	3,545	4.8
Wisconsin	69.6	2.4	1,244	1.7
Total	747.1	26.1	14,402	19.4
South				
Alabama	29.2	1.0	695	0.9
Arkansas	23.9	0.8	365	0.5
District of Columbia	16.3	0.6	245	0.3
Florida	86.0	3.0	5,414	7.3
Georgia	36.1	1.3	972	1.3
Kentucky	41.2	1.4	1,517	2.0
Louisiana	25.0	0.9	1,102	1.5
Mississippi	28.5	1.0	531	0.7
North Carolina	36.0	1.3	1,452	2.0
Oklahoma	27.8	1.0	435	0.6
South Carolina	37.1	1.3	725	1.0
Tennessee	43.8	1.5	1,406	1.9
Texas	138.1	4.8	3,259	4.4
Virginia	57.6	2.0	992	1.3
West Virginia	55.3	1.9	982	1.3
Total	681.9	23.8	20,092	27.0

**EPA Wastewater Treatment Construction
Grants Program: Fiscal 1987 (continued)
(in millions of dollars)**

Region and State	Fiscal 1987 Outlays	Percent of Total	Needs to Year 2000 ¹	Percent of Total
West				
Alaska	22.4	0.8	221	0.3
Arizona	13.4	0.5	753	1.0
California	195.6	6.8	6,139	8.3
Colorado	19.3	0.7	112	0.2
Hawaii	18.1	0.6	363	0.5
Idaho	6.9	0.2	219	0.3
Kansas	23.0	0.8	606	0.8
Missouri	86.7	3.0	1,109	1.5
Montana	9.2	0.3	49	0.1
Nebraska	14.7	0.5	136	0.2
Nevada	15.4	0.5	152	0.2
New Mexico	6.7	0.2	156	0.2
North Dakota	6.5	0.2	21	0.0
Oregon	18.7	0.7	866	1.2
South Dakota	8.1	0.3	65	0.1
Utah	13.4	0.5	561	0.8
Washington	41.0	1.4	2,485	3.3
Wyoming	7.4	0.3	37	0.0
Total	526.5	18.4	14,050	18.9
Northeast	908.9	31.7	25,846	34.7
Midwest	747.1	26.1	14,402	19.4
Northeast and Midwest	1,656.0	57.8	40,248	54.1
South	681.9	23.8	20,092	27.0
West	526.5	18.4	14,050	18.9
South and West	1,208.4	42.2	34,142	45.9
U.S. Total	2,864.4	100.0	74,390	100.0

¹ EPA's assessment of funds needed for construction of publicly owned wastewater treatment facilities to the year 2000, in January 1986 dollars.

SOURCES: Environmental Protection Agency, Grants Administration Division, "Status of Combined Funds Under P.L. 92-500 Authority," Washington, D.C., unpublished thirteenth-month report, October 16, 1987; and Environmental Protection Agency, Office of Municipal Pollution Control, 1986 Needs Survey: Report to Congress, (Washington, D.C., February 10, 1987), p. A-7.



SECTION SEVEN: AGRICULTURE

The administration's budget proposal for the Department of Agriculture (USDA) is consistent with the terms of the budget summit agreement. It requests a reduction of \$4.4 billion (7.3 percent) in budget authority, from \$59.9 billion in fiscal 1988 to \$55.5 billion in fiscal 1989. It requests a \$2.4 billion reduction (4.7 percent) in outlays, from \$50.7 billion to \$48.3 billion. Budget authority for farm programs (function 350) would increase slightly, from \$22.5 billion to \$23.7 billion (5.3 percent). Outlays, however, would decline 3.1 percent, from \$22.4 billion to \$21.7 billion.

The budget contains few surprises. It is noteworthy primarily because it abandons previous proposals for new user fees, changes in food assistance programs, and privatization of crop insurance. The administration will, however, propose legislative changes in the sugar price support program. The administration hopes to boost sugar imports from Caribbean Basin nations and the Philippines.

The administration estimates that total outlays for farm income stabilization (subfunction 351) will decline 2.8 percent in fiscal 1989, from \$20.3 billion to \$19.8 billion. Outlays for agricultural price supports peaked at \$25.8 billion in fiscal 1986 and declined to \$22.5 billion in fiscal 1987--the first year in which provisions of the 1985 farm bill were fully in effect. Net Commodity Credit Corporation (CCC) outlays are estimated at \$17.7 billion for fiscal 1988 and \$17.1 billion for fiscal 1989 (exclusive of credit reform). Lower target prices and stronger domestic and export markets for program commodities (wheat, feed grains, etc.) account for the lower outlays.

The administration proposes to reduce budget authority for agricultural research and services (subfunction 352) by 7.2 percent, from \$2.1 billion in fiscal 1988 to \$1.9 billion in fiscal 1989. Outlays would decline by 2.4 percent, to \$2.0 billion. The administration's research priorities include genetics and biotechnology, minimizing agriculture's impact on groundwater, determining the effects of stratospheric ozone depletion on crops, detecting food residues and impurities, and diversifying rural and small community economies. (For a state-by-state breakdown of major farm program expenditures, see the table at the end of this section.)

USDA also operates food and nutrition assistance programs (function 600), which typically account for about 40 percent of the Department's outlays. The president is seeking food assistance outlays of \$20.9 billion for fiscal 1989--about a \$0.4 billion increase over fiscal 1988. Outlays for the Food Stamp Program would decrease by 3.7 percent, from \$12.6 billion to \$12.5 billion. Reduced unemployment (projected) would account for the decline. Outlays for the Child Nutrition and Supplemental Feeding Programs would increase by 5.4 percent and 3.2 percent, respectively.

BUDGET SUMMARY
(in millions of dollars)

Function		1981 Actual	1987 Actual	1988 Estimate	1989 Request	Percent Change 1988-1989	
						Nominal	Adjusted for Inflation
351	Commodity Credit Corporation						
	Budget Authority	4,207	20,065	16,294	15,676	-3.8	-7.3
	Outlays	4,061	22,408	17,657	17,151	-2.9	-6.4
352	Extension Service						
	Budget Authority	304	339	358	300	-16.2	-19.3
	Outlays	301	319	353	312	-11.6	-14.9
351	Agricultural Credit Insurance Fund						
	Budget Authority	573	2,933	3,615	5,022	38.9	33.8
	Outlays	-228	2,564	2,124	1,255	-40.9	-43.1
352	Cooperative State Research Service						
	Budget Authority	201	379	306	257	-16.0	-19.1
	Outlays	199	281	304	276	-9.2	-12.5

¹ Includes \$7 million proposed for later transmittal under proposed legislation, plus \$11 million in credit reform.

² Includes \$2-billion reduction in the limitation on guaranteed loan commitments proposed for later transmittal under proposed legislation.

³ Includes a reduction of \$598 million in credit reform.

⁴ Includes a reduction of \$568 million in outlays, \$500 million in limitation on direct loan obligations, and \$3,600 million in limitation on guaranteed loan commitments due to credit reform.

USDA administers a variety of programs designed to ensure the production and orderly marketing of adequate supplies of food and fiber at reasonable prices. Agricultural production is inherently risky relative to other industries. Hence, the federal government has provided extensive direct and indirect assistance to the farm sector over the years, stabilizing commodity prices, bolstering farm income, and providing credit at favorable terms. Farm programs include price supports (nonrecourse loans and direct purchases), income supports (deficiency, incentive, and disaster payments), and supply management (allotments, quotas, acreage reductions, conservation reserve, etc.). These programs underpin farm operations and rural communities.

From the early 1970s to 1981, global demand for food outstripped production capacity here and abroad. Inflated commodity prices boosted farmers' income. Soaring farm land values--tied to commodity prices--boosted farmers' assets, equity, and access to credit. Federal expenditures for farm income stabilization (subfunction 351) were relatively low, averaging just \$3.0 billion per year.

The recession in 1982 dampened global demand for food. The farm sector plunged into a crisis--just now abating--unprecedented since the Depression. Lesser developed nations--strapped for cash because of energy price fluctuations and debt obligations--curtailed imports and expanded their own food production capability. The 1981 farm bill locked in price supports at artificially high rates. Domestic producers, guaranteed a price floor by the government, produced record crop after record crop while U.S. export market share dwindled. Commodity surpluses, in turn, depressed market prices. Farmers, desperate to maintain cash flow, produced even more. The value of farm land plummeted, driving down farmers' equity. Simultaneously, enormous budget deficits forced the federal government to compete in credit markets, driving up interest rates for highly leveraged farm operators.

Agricultural exports peaked at 163.9 million metric tons in fiscal 1980 and then declined steadily, to 109.5 million metric tons by fiscal 1986 (down 33.2 percent). The value of these exports peaked at \$43.8 billion in fiscal 1981 and declined to \$26.3 billion by fiscal 1986 (a 40 percent reduction in nominal dollars). The U.S. agricultural trade balance dropped an astounding 80 percent between fiscal 1981 and fiscal 1986, from \$26.6 billion to \$5.4 billion.

Net farm income declined 51.7 percent (in nominal dollars) between fiscal 1981 and fiscal 1983, from \$26.9 billion to \$13.0 billion. Farm assets, valued at \$1.1 trillion in fiscal 1981, dropped 22 percent, to \$866.8 billion, by fiscal 1985. Farm real estate values declined precipitously for five straight years, from \$823 per acre in fiscal 1982 to \$548 per acre in fiscal 1987 (a 33.4 percent reduction in nominal dollars).

The farm sector appears--at long last--to be recovering. Exports are rising in volume and value because of lower prices mandated by the 1985 farm bill and a sharp decline in the value of the dollar. Fiscal 1987 agricultural exports totaled 129.2 million metric tons valued at \$27.9 billion. The administration projects that fiscal 1988 exports will total 142.5 million metric tons valued at \$32.5 billion, for a volume increase of 23 percent over fiscal 1986 and a value increase of 19 percent. The fiscal 1988 agricultural trade balance could reach \$12.0 billion, a 55 percent increase over fiscal 1986.

Net farm income has risen steadily since fiscal 1985, in large part because farm program outlays have averaged \$18 billion annually since then. Net farm income was a record \$45 billion in fiscal 1987. The administration estimates net farm income will total \$40 to \$45 billion in fiscal 1988. The price of farm land increased 3 to 5 percent in fiscal 1987 and is likely to increase again in fiscal 1988. Total farm assets and equity increased in fiscal 1987--the first such increases since fiscal 1981. Farm debt peaked in fiscal 1983 at \$193 billion (excluding operator household debt and CCC loans) and has declined steadily since then. The administration estimates farm debt will total \$128 to \$138 billion in fiscal 1988.

Renewed optimism about the Farm Belt must be tempered, however. Over the past 15 years, U.S. agriculture has become dependent on macroeconomic conditions beyond its control, and even its predictive powers. Exports, for instance, have risen in large part because of the dollar's decline. Interest rates and energy prices are favorable--for the time being. Moreover, farmers are deriving historically high percentages of their income from federal farm program expenditures. Direct government payments, for instance, accounted for 7.5 percent of net farm income in calendar years 1980 and 1981; they accounted for 28.0 percent in calendar years 1985 and 1986. Debt has decreased, in part, simply because large numbers of families have been forced to quit farming.

Agriculture and its associated industries are a vital element in the Northeast-Midwest economy. Five of the nation's ten biggest agricultural producers (total cash receipts) are in the region: Iowa (ranked 3rd), Illinois (4th), Minnesota (6th), Wisconsin (8th), and Indiana (10th). Nationwide, cash receipts for dairy products total some \$15 to \$18 billion annually. Seven of the top ten dairy states are within the region. The midwestern states are among the nation's leading producers of beef, hogs, corn, soybeans, and other feed grains. The northeastern states are large producers of greenhouse and nursery goods, fruits, vegetables, and specialty products. Crop production is crucial to the region and supports a variety of dependent manufacturing industries and other businesses that process and transport farm goods. Because of this interdependence, the farm crisis has wreaked particular havoc on the economy of the Midwestern states.

In fiscal 1986, the Midwest had about 598,000 farms, 72,000 fewer than in fiscal 1980, a decline of 10.7 percent. The Northeast had 156,000 farms, 14,000 fewer than in fiscal 1980, a decline of 8.2 percent. (See the table at the end of this section for state-by-state patterns of net farm loss or gain.)

A. Commodity Price Support Programs

The administration estimates that total outlays for farm income stabilization will decline from \$20.3 billion in fiscal 1988 to \$19.8 billion in fiscal 1989. Farm income stabilization outlays will account for 90.6 percent of all fiscal 1989 outlays for function 350 agricultural programs.

The Commodity Credit Corporation (CCC) finances price support programs with funds borrowed from the U.S. Treasury. The CCC repays the loans, with interest, from receipts and from appropriations provided by Congress. Outstanding CCC borrowings may not exceed \$30 billion. CCC programs provide

price and income support through non-recourse loans, purchases, deficiency payments, and other activities.

CCC outlays peaked at \$25.8 billion in fiscal 1986 and declined to \$22.5 billion in fiscal 1987. The administration estimates outlays will drop to \$17.7 billion in fiscal 1988 and \$17.1 billion in fiscal 1989. The administration attributes the steady reduction in outlays to the 1985 farm bill's market orientation. Declining target prices and loan rates (see table below) boosted exports and reduced stocks in fiscal 1987. Corn exports, for instance, increased 21 percent from the previous year. Wheat exports increased 10 percent, rice exports increased 45 percent, and cotton exports increased 250 percent.

Target Prices for Selected Commodities

	Crop Years				Percent Change 1986-1989	
	1986	1987	1988	1989	Nominal	Adjusted for Inflation
Corn (\$/bu.)	3.03	3.03	2.93	2.84	-6.3	-9.7
Wheat (\$/bu.)	4.38	4.38	4.23	4.10	-6.4	-9.8
Cotton (cents/lb.)	81.00	79.40	75.90	73.40	-9.4	-12.7
Rice (\$/cwt.)	11.90	11.66	11.15	10.80	-9.2	-12.6

Loan Rates for Selected Commodities

	Crop Years				Percent Change 1986-1988	
	1986	1987	1988	1989	Nominal	Adjusted for Inflation
Corn (\$/bu.)	1.92	1.82	1.77	NA	-7.8	-11.2
Wheat (\$/bu.)	2.40	2.28	2.21	NA	-7.9	-11.3
Cotton (cents/lb.)	55.00	52.20	51.80	NA	-5.8	-9.3
Rice (\$/cwt.)	7.20	6.84	6.63	NA	-7.9 ₁	-11.3 ₁
Soybeans (\$/bu.)	4.77	4.77	NA	NA	-- ¹	-- ¹

¹ 1988-crop soybean and 1989-crop loan rates for all commodities will be announced later.

SOURCE: U.S. Department of Agriculture, 1989 Budget Summary (Washington, D.C., 1988), p. 18.

The downward trend in outlays will continue (see table below). The administration intends to use discretionary authority provided by the 1985 farm bill and the Budget Reconciliation Act of 1987 to reduce price support levels further. The Budget Reconciliation Act, for instance, allows for a 1.4 percent decrease in target prices for the 1988 and 1989 crops, a 10 percent paid diversion program for 1988 and 1989 crop feed grains, a reduction in outlays for nontarget price commodities, and a reduction in CCC storage, handling, and transportation costs.

CCC Net Program Outlays by Commodity
(in millions of dollars)

Commodity	Fiscal 1986	Fiscal 1987	Fiscal 1988	Fiscal 1989	Percent Change 1986-1989	
					Nominal	Adjusted for Inflation
Feed Grains ¹	12,211	13,967	12,568	11,050	-10	-13
Wheat	3,440	2,836	1,083	1,524	-56	-57
Rice	947	906	189	320	-66	-67
Cotton	2,142	1,786	42	229	-89	-90
Tobacco	253	-346	-433	-323	-228	-223
Dairy	2,337	1,166	1,227	936	-60	-61
Soybeans	1,597	-476	-1,069	-305	-119	-118
Honey	89	73	70	56	-37	-39
Wool	123	152	125	127	3	-1
Other	2,702	2,344	3,855	3,526	30	26
Total, CCC Program Outlays	25,841	22,408	17,657	17,140	-34	-36

¹Includes corn, oats, barley, alfalfa, and sorghum.

SOURCE: U.S. Department of Agriculture, 1989 Budget Summary, Washington, D.C., 1988), p. 20.

The administration estimates CCC outlays for fiscal 1988 and 1989 will total \$34.8 billion--a \$4.9 billion reduction since its August estimate. It attributes \$2.5 billion in savings to the provisions of the Budget Reconciliation Act mentioned above. Improved supply and demand conditions account for the remaining \$2.4 billion in savings. In fiscal 1987 the Northeast and Midwest received 42.7 percent of all CCC expenditures.

B. Export Programs

The administration proposal requests \$5.3 billion for international programs, a decrease of \$1.9 billion (26.2 percent) from fiscal 1988. It also would reduce short-term export credit guarantees from \$5.0 billion to \$3.0 billion to reflect recent year participation rates. Intermediate-term credit

guarantees would be level-funded at \$500 million. The president's budget would fund P.L. 480 programs, such as Food for Peace (function 150), at \$1.4 billion. It would allow shipments of 6.7 million metric tons of commodities, a 4.3 percent decrease from the fiscal 1988 level of 7.0 million metric tons.

C. Farm Credit

Most agricultural credit is provided through the Farm Credit System (FCS), a network of privately owned and cooperatively organized lenders operating under federal charter. The six-year downturn in the farm economy had a devastating impact on FCS lenders. With nearly one-quarter of the System's farm loans troubled, FCS has suffered operating losses of \$4.8 billion since early 1985.

Shortly before adjourning last December, Congress passed the Agricultural Credit Act of 1987 (P.L. 100-233). It authorizes a \$4.0 billion financial assistance package for vulnerable FCS institutions and requires both FCS and the Farmers Home Administration (FmHA) to restructure problem farm loans that meet certain criteria.

FmHA is the "lender of last resort" and administers the Agricultural Credit Insurance Fund (ACIF), which consists of farm ownership, farm operating, soil and water, and emergency loans. (ACIF is one of the FmHA's three loan portfolios. The other two are the Rural Housing Insurance Fund and the Rural Development Insurance Fund. The farmer program loans made under ACIF amount to more than 50 percent of FmHA lending.) FmHA currently holds about 20 percent of total farm debt outstanding. In fiscal 1987, outstanding FmHA ACIF direct loans totaled \$27.6 billion, more than 50 percent of which has been lent during the past ten years. In fiscal 1987, new direct lending totaled \$1.1 billion. The Northeast and Midwest received 30.5 percent of all ACIF obligations.

Farm operating and farm ownership direct and guaranteed loan activities in fiscal 1988 are estimated at \$3.8 billion. The 1989 budget proposes \$4.0 billion in direct and guaranteed farm operating lending, continuing the shift from direct federal lending to federal guarantees of private loans, as provided for in the 1985 farm bill. It would provide \$100 million for disaster loans, \$100 million for interest buy-downs on guaranteed loans, and \$100 million for guarantees of farm ownership loans. (See the table at the end of this section for a state-by-state breakdown of farm operating, farm ownership, and total ACIF obligations for fiscal 1987.)

As of January 1, 1987, nearly 39 percent of all farms were (operator) debt-free; another 39 percent had debt-to-asset ratios less than 0.40. Twenty-two percent of all farms had a debt-to-asset ratio greater than 0.40. These highly leveraged farms held about 67 percent of all operator debt, which totaled \$98.5 billion. The average farm had a debt-to-asset ratio of 0.22.

Despite the apparent farm recovery, pockets of financial distress persist. On January 1, 1987, 203,000 farms (about 9 percent of all farms and 13 percent of commercial farms) were financially vulnerable (negative net cash household income and a debt-to-asset ratio greater than 40 percent). Many of these farms are in the Corn Belt (Illinois, Indiana, Iowa, Missouri, and Ohio) and Lake States (Michigan, Minnesota, and Wisconsin). According to USDA's Financial Characteristics of U.S. Farms, January 1, 1987:

- Family-sized commercial farms (annual sales of \$40,000-\$499,999) represented almost 35 percent of all farms, controlled 52 percent of all assets, but owed 64 percent of all debt.
- Cash grain farms accounted for almost 24 percent of all farms, owned an equal percentage of assets, but owed almost 34 percent of all debt.
- Farms in the Lake States, Corn Belt, and Northern Plains (Kansas, Nebraska, and North and South Dakota) accounted for over 45 percent of all farms, controlled 40 percent of all assets, but owed over 53 percent of all debt. The Corn Belt was the most indebted region, with over 23 percent of all farm operator debt--17 percent of which was held by technically insolvent operators.

D. Agricultural Research and Services

The Cooperative State Research Service (CSRS) and the Extension Service administer USDA's primary research and education programs. CSRS programs fund research at state agricultural experiment stations, land-grant colleges, and other eligible educational institutions. The administration proposal would provide \$257 million in CSRS budget authority in fiscal 1989, a reduction of \$49 million (15.9 percent) from fiscal 1988 funding of \$306 million. The proposal would boost funding for competitive grants by \$12.1 million. Funding for special research grants would be reduced by \$28.8 million, to \$5.0 million. Total CSRS outlays would decline from \$304 million to \$276 million in fiscal 1989, a \$38.5 million cut (9.4 percent).

The Extension Service distributes funds to states by statutory formula for use at the county and local level. The program disseminates USDA and land-grant college research and provides a wide range of assistance in home economics, rural community development, and 4-H youth programs. Federal funds provide about one-third of Cooperative Extension funding nationwide. The administration proposal would provide \$300 million in budget authority in fiscal 1989, a reduction of \$58 million (16.3 percent) from fiscal 1988 funding. Outlays would decline from \$353 million to \$312 million in fiscal 1989, a \$41 million cut (11.6 percent).

The Agricultural Research Service (ARS) conducts basic and applied research at 135 locations throughout the country and abroad. The world's largest multidisciplinary agricultural research facility is the ARS Beltsville (Maryland) lab. The administration proposal would cut budget authority for ARS by \$27 million (4.4 percent). A \$20 million increase in research would be offset by a \$47 million decrease in building and facilities construction. Total outlays, however, would increase by \$11 million (1.9 percent). In fiscal 1987 the Northeast and Midwest received 38.1 percent of CSRS expenditures, 35.3 percent of Extension Service expenditures and 39.8 percent of ARS expenditures.

E. Conservation Reserve

The 1985 farm bill authorized creation of a 45 million-acre Conservation Reserve Program (CRP) to retire highly erodible land. The administration

requests appropriations of nearly \$1.9 billion for fiscal 1989 to defray rental payments, technical assistance, and cost-sharing to establish vegetative cover.

The sixth CRP sign-up period ended on February 19, 1988. Through the first five sign-ups, USDA has enrolled nearly 23 million acres in ten-year contracts. These existing contracts will prevent 466 million tons of soil erosion annually (20 tons per acre) and reduce commodity program bases by 14.6 million acres. (See the table at the end of this section for a state-by-state breakdown of participation in the CRP through the first five signups.)

The Northeast and Midwest have 33.0 percent of the nation's cropland but just 26.1 percent of the cropland eligible for the CRP. Through the first five sign-ups, the Northeast and Midwest have enrolled 18.2 percent of the nearly 23 million acres under the contract

Congress will monitor the CRP and other setaside programs, which could idle 74 million acres this year. Farmers idled 78 million acres in 1983 during the Payment-in-Kind program, which caused hardships for farm suppliers. Already, six to eight Montana counties could be close to retiring more than half of their crop acreage under federal farm programs.

Farm Program Expenditures
(in thousands of dollars)

Region and State	Commodity Credit Corporation ¹	Agricultural Research Service	Cooperative State Research Services	Agricultural Extension Service
New England				
Connecticut	5,988	0	2,426	2,153
Maine	8,554	513	2,573	2,161
Massachusetts	8,598	12,099	4,132	3,130
New Hampshire	3,058	0	1,681	1,496
Rhode Island	260	0	1,212	1,126
Vermont	16,338	0	2,603	1,662
Total	42,796	12,612	14,627	11,728
Mid-Atlantic				
Delaware	14,492	1,186	2,072	1,492
Maryland	66,909	74,463	4,318	4,313
New Jersey	15,232	307	3,559	3,432
New York	156,680	11,917	10,015	10,780
Pennsylvania	107,744	18,765	9,265	10,394
Total	361,057	106,638	29,229	30,411
Midwest				
Illinois	3,200,377	21,749	34,366	10,244
Indiana	1,265,627	3,169	6,041	8,337
Iowa	3,978,718	17,009	8,886	8,232
Michigan	636,671	3,099	8,841	8,750
Minnesota	2,688,492	5,957	6,205	8,422
Ohio	826,126	3,343	7,394	10,092
Wisconsin	664,924	4,313	8,582	7,846
Total	13,260,935	58,639	80,315	61,923
South				
Alabama	196,228	2,507	14,230	9,743
Arkansas	958,113	1,167	5,262	7,238
District of Columbia	0	3,408	623	908
Florida	282,948	17,869	6,286	6,462
Georgia	386,901	25,488	8,189	10,049
Kentucky	321,562	901	7,275	10,124
Louisiana	480,507	19,123	5,493	7,339
Mississippi	732,640	20,130	28,404	8,750
North Carolina	358,682	6,485	10,522	13,813
Oklahoma	420,598	7,444	4,900	6,360
South Carolina	125,952	5,411	5,540	7,148
Tennessee	314,554	322	6,699	10,544
Texas	2,241,563	29,865	12,148	16,328
Virginia	99,033	478	6,710	8,970
West Virginia	10,083	5,478	2,622	4,364
Total	6,929,364	146,076	124,903	128,140

Farm Program Expenditures (continued)
(in thousands of dollars)

Region and State	Commodity Credit Corporation ¹	Agricultural Research Service	Cooperative State Research Services	Agricultural Extension Service
West				
Alaska	1,579	716	1,084	1,116
Arizona	164,242	8,479	2,938	2,598
California	1,364,476	35,034	12,938	9,241
Colorado	586,508	7,880	3,781	3,134
Hawaii	632	3,524	5,074	1,299
Idaho	322,410	4,986	3,071	2,495
Kansas	1,536,447	3,869	4,551	5,381
Missouri	990,362	4,084	8,553	9,589
Montana	531,652	3,145	2,261	2,446
Nebraska	2,423,956	10,722	3,656	4,501
Nevada	4,271	559	1,632	1,166
New Mexico	116,390	1,229	2,282	2,312
North Dakota	1,582,362	15,330	2,865	3,154
Oregon	110,724	4,918	6,855	3,626
South Dakota	927,378	1,424	2,322	3,074
Utah	178,237	3,238	2,480	1,844
Washington	552,171	10,813	8,455	4,141
Wyoming	41,306	2,918	1,666	1,478
Total	11,435,103	122,868	76,464	62,595
Northeast	403,853	119,250	43,856	42,139
Midwest	13,260,935	58,639	80,315	61,923
Northeast and Midwest	13,664,788	177,889	124,171	104,062
South	6,929,364	146,076	124,903	128,140
West	11,435,103	122,868	76,464	62,595
South and West	18,364,467	268,944	201,367	190,735
U.S. Total/Average	32,029,255²	446,833³	325,538⁴	294,797⁵

¹Includes Dairy Termination Program; Milk Division Payments; Cotton, Feed Grain, Rice, and Wheat Direct Payments; National Wool Act Payments; Commodity Loans and Purchases; Storage Facilities and Equipment Loans; Emergency Feed Program; Grain Reserve Program; Conservation Reserve Program; and Disaster Program (Generic Certificates).

²"Gross disbursements by state"--does not account for loan repayments.

³Total does not include obligations for headquarters (District of Columbia), Puerto Rico, Virgin Islands, other countries, Extramural and Program locations to be determined, Repair, Maintenance, and Construction of Facilities.

⁴Allotments to the U.S. Forest Service, and Unobligated Balances.

⁵Total does not include payments to Puerto Rico, Virgin Islands, Guam, the Territories, Small Business Set-Asides, and Unobligated Balances.

⁶Total does not include obligations to Puerto Rico, Virgin Islands, Guam, the Territories, Special Projects, and Federal Administration.

SOURCES: USDA, Commodity Credit Corporation, Federal Assistance Award FY 1987 State Summary by Program (Washington, D.C., December 1987), Agricultural Research Service, "Statement of Obligations and Staff Years by Location, unpublished data, Washington, D.C., 1988; Cooperative State Research Service, unpublished data, Washington, D.C., 1988; Cooperative Extension Service, unpublished data, Washington, D.C., 1988.

Patterns of Net Farm Loss or Gain 1980-1986

Region and State	1980	1986	Change	Percent Change
New England				
Connecticut	4,000	4,000	0	0.00
Maine	8,000	8,000	0	0.00
Massachusetts	6,000	6,000	0	0.00
New Hampshire	3,000	3,000	0	0.00
Rhode Island	1,000	1,000	0	0.00
Vermont	8,000	7,000	-1,000	-12.50
Total	30,000	29,000	-1,000	-3.33
Mid-Atlantic				
Delaware	4,000	3,000	-1,000	-25.00
Maryland	18,000	17,000	-1,000	-5.56
New Jersey	9,000	8,000	-1,000	-11.11
New York	47,000	42,000	-5,000	-10.64
Pennsylvania	62,000	57,000	-5,000	-8.06
Total	140,000	127,000	-13,000	-9.29
Midwest				
Illinois	107,000	87,000	-20,000	-18.69
Indiana	87,000	78,000	-9,000	-10.34
Iowa	119,000	109,000	-10,000	-8.40
Michigan	65,000	61,000	-4,000	-6.15
Minnesota	104,000	93,000	-11,000	-10.58
Ohio	95,000	88,000	-7,000	-7.37
Wisconsin	93,000	82,000	-11,000	-11.83
Total	670,000	598,000	-72,000	-10.75
South				
Alabama	59,000	52,000	-7,000	-11.86
Arkansas	59,000	50,000	-9,000	-15.25
District of Columbia	NA	NA	NA	NA
Florida	39,000	39,000	0	0.00
Georgia	59,000	49,000	-10,000	-16.95
Kentucky	102,000	99,000	-3,000	-2.94
Louisiana	37,000	36,000	-1,000	-2.70
Mississippi	55,000	46,000	-9,000	-16.36
North Carolina	93,000	73,000	-20,000	-21.51
Oklahoma	72,000	71,000	-1,000	-1.39
South Carolina	34,000	28,000	-6,000	-17.65
Tennessee	96,000	96,000	0	0.00
Texas	189,000	160,000	-29,000	-15.34
Virginia	58,000	50,000	-8,000	-13.79
West Virginia	22,000	21,000	-1,000	-4.55
Total	974,000	870,000	-104,000	-10.68

Patterns of Net Farm Loss or Gain 1980-1986 (continued)

Region and State	1980	1986	Change	Percent Change
West				
Alaska	500	1,000	+500	+100.00
Arizona	8,000	9,000	+1,000	+12.50
California	81,000	79,000	-2,000	-2.47
Colorado	27,000	27,000	0	0.00
Hawaii	4,000	4,000	0	0.00
Idaho	24,000	24,000	0	0.00
Kansas	75,000	70,000	-5,000	-6.67
Missouri	120,000	115,000	-5,000	-4.17
Montana	24,000	24,000	0	0.00
Nebraska	65,000	57,000	-8,000	-12.31
Nevada	3,000	2,000	-1,000	-33.33
New Mexico	14,000	14,000	0	0.00
North Dakota	40,000	33,000	-7,000	-17.50
Oregon	35,000	37,000	+2,000	+5.71
South Dakota	39,000	36,000	-3,000	-7.69
Utah	14,000	14,000	0	0.00
Washington	38,000	38,000	0	0.00
Wyoming	9,000	9,000	0	0.00
Total	620,500	593,000	-27,500	-4.43
Northeast	170,000	156,000	-14,000	-8.24
Midwest	670,000	598,000	-72,000	-10.75
Northeast and Midwest	840,000	754,000	-86,000	-10.24
South	974,000	870,000	-104,000	-10.68
West	620,500	593,000	-27,500	-4.43
South and West	1,594,500	1,463,000	-131,500	-8.25
U.S. Total	2,434,500	2,217,000	-217,500	-8.93

SOURCE: U.S. Department of Commerce, Bureau of the Census, "Statistical Abstract of the U.S. 1987." 107 ed. (Washington, D.C., 1987).

Agricultural Credit Insurance Fund
Geographic Distribution of Obligations
(in thousands of dollars)

Region and State	Farm Operating Loan Program	Farm Ownership Loan Program	Total Total ACIF Obligations
New England			
Connecticut	1,552	592	2,200
Maine	10,301	1,113	11,400
Massachusetts	1,556	885	2,400
New Hampshire	496	196	700
Rhode Island	492	0	500
Vermont	5,921	3,337	9,500
Total	20,318	6,123	26,700
Mid-Atlantic			
Delaware	1,669	4,592	7,100
Maryland	4,391	2,835	8,900
New Jersey	4,091	714	5,200
New York	26,606	4,187	34,900
Pennsylvania	21,527	8,404	30,900
Total	58,284	20,732	87,000
Midwest			
Illinois	94,633	21,697	116,500
Indiana	37,198	9,447	46,700
Iowa	160,234	40,821	202,000
Michigan	70,404	15,175	90,700
Minnesota	154,077	22,358	178,000
Ohio	54,088	9,227	63,400
Wisconsin	138,060	41,487	181,500
Total	708,694	160,212	878,800
South			
Alabama	31,662	5,030	39,200
Arkansas	74,350	11,183	91,600
District of Columbia	0	0	0
Florida	12,515	1,076	13,700
Georgia	66,025	3,629	75,600
Kentucky	39,413	12,255	53,300
Louisiana	186,132	9,824	200,000
Mississippi	100,647	8,842	122,200
North Carolina	41,603	9,136	56,300
Oklahoma	132,633	15,757	151,500
South Carolina	19,961	1,298	37,600
Tennessee	49,333	4,582	56,900
Texas	200,554	10,321	218,100
Virginia	14,346	3,305	21,300
West Virginia	3,814	2,234	6,500
Total	972,988	98,472	1,143,800

Agricultural Credit Insurance Fund
Geographic Distribution of Obligations (continued)
(in thousands of dollars)

Region and State	Farm Operating Loan Program	Farm Ownership Loan Program	Total Total ACIF Obligations
West			
Alaska	40	0	40
Arizona	2,176	374	2,600
California	54,061	6,785	64,300
Colorado	24,352	5,772	30,700
Hawaii	1,126	949	2,100
Idaho	46,597	4,717	53,000
Kansas	89,048	18,779	108,500
Missouri	73,206	14,362	88,900
Montana	48,884	7,757	68,400
Nebraska	140,240	13,063	154,100
Nevada	2,082	0	2,300
New Mexico	17,485	1,895	20,100
North Dakota	132,267	19,911	154,700
Oregon	26,169	3,230	31,000
South Dakota	46,414	2,707	51,400
Utah	6,339	1,840	8,400
Washington	38,246	7,225	47,100
Wyoming	24,685	3,090	27,800
Total	773,417	112,456	915,440
Northeast	78,602	26,855	113,700
Midwest	708,694	160,212	878,800
Northeast and Midwest	787,296	187,067	992,500
South	972,988	98,472	1,143,800
West	773,417	112,456	915,440
South and West	1,746,405	210,928	2,059,240
U.S. Total/Average	2,533,701	397,995	3,051,740

SOURCES: U.S. Department of Agriculture, Farmers Home Administration, "Geographic Breakdown of Obligations 1987 and Estimated 1988 and 1989," unpublished data, Washington, D.C., 1988; Farmers Home Administration, A Brief History of Farmers Home Administration (Washington, D.C., February 1988), pp. 23-26.

Participation in the Conservation Reserve Program¹

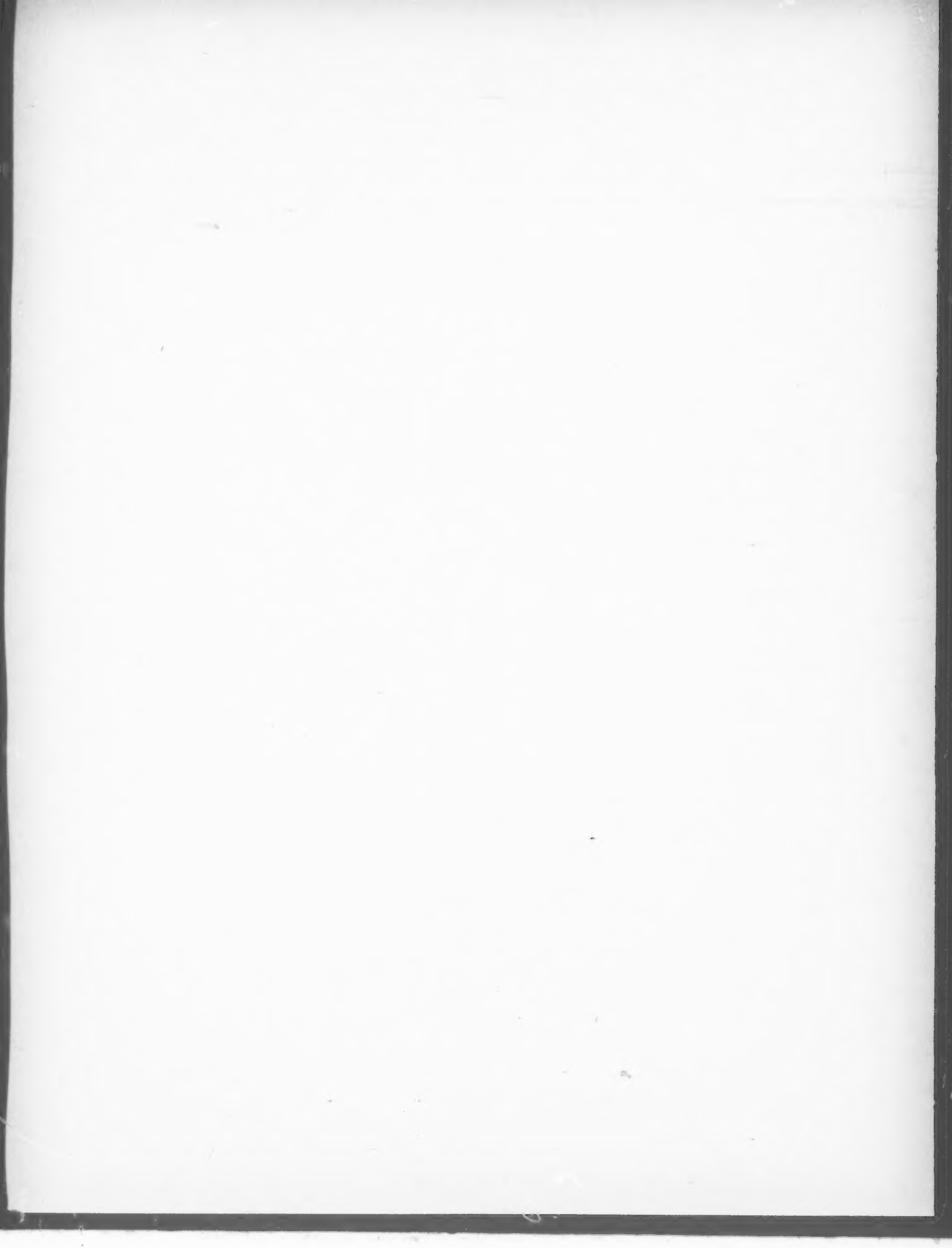
Region and State	Total Cropland (thousands of acres)	Eligible Acres	Eligible as Percent of State Cropland	Acres Accepted Actual	Percent of Eligible Accepted	Price per Acre (in dollars)
New England						
Connecticut	246	22	8.9	0	0.0	0.00
Maine	953	107	11.2	21,366	20.0	49.05
Massachusetts	298	19	6.4	25	0.1	47.00
New Hampshire	158	5	3.2	0	0.0	0.00
Rhode Island	23	2	8.7	0	0.0	0.00
Vermont	651	36	5.5	208	0.6	50.07
Total	2,329	191	8.2	21,599	11.3	
Mid-Atlantic						
Delaware	520	17	3.3	155	0.9	64.61
Maryland	1,788	405	22.7	3,647	0.9	59.50
New Jersey	811	137	16.9	322	0.2	52.66
New York	5,907	1,140	19.3	36,077	3.2	54.31
Pennsylvania	5,913	1,780	30.1	46,924	2.6	59.18
Total	14,939	3,479	23.3	87,125	2.5	
Midwest						
Illinois	24,778	3,644	14.7	344,001	9.4	70.01
Indiana	13,796	1,910	13.8	187,802	9.8	65.46
Iowa	26,454	7,121	26.9	1,420,111	19.9	76.69
Michigan	9,423	411	4.4	114,280	27.8	57.39
Minnesota	23,063	1,208	5.2	1,515,864	125.5	55.89
Ohio	12,469	1,408	11.3	134,857	9.6	59.34
Wisconsin	11,475	2,295	20.0	353,115	15.4	66.74
Total	121,458	17,997	14.8	4,070,030	22.6	
South						
Alabama	4,492	1,123	25.0	370,911	33.0	41.37
Arkansas	8,112	619	7.6	132,719	21.4	47.55
District of Columbia	NA	NA	NA	NA	NA	NA
Florida	3,440	149	4.3	70,797	47.5	41.18
Georgia	6,535	901	13.8	372,552	41.3	41.95
Kentucky	5,863	1,828	31.2	327,635	17.9	58.60
Louisiana	6,403	211	3.3	59,396	8.1	43.01
Mississippi	7,394	1,504	20.3	486,231	32.3	41.54
North Carolina	6,661	1,333	20.0	84,004	6.3	45.29
Oklahoma	11,551	2,714	23.5	870,667	8.1	42.22
South Carolina	3,575	325	9.1	174,704	53.8	41.08
Tennessee	5,578	1,821	32.6	307,910	16.9	51.20
Texas	33,268	11,091	33.3	2,782,531	25.1	39.05
Virginia	3,394	804	23.7	38,701	4.8	48.16
West Virginia	1,059	99	9.3	387	0.4	47.32
Total	107,325	24,522	22.8	6,079,145	24.8	

Participation in the Conservation Reserve Program ¹ (continued)

Region and State	Total Cropland (thousands of acres)	Eligible Acres	Eligible as Percent of State Cropland	Acres Accepted Actual	Percent of Eligible Accepted	Price per Acre (in dollars)
West						
Alaska	NA	NA	NA	NA	NA	NA
Arizona	1,121	191	17.0	0	0.0	0.00
California	10,521	496	4.7	153,972	31.0	48.36
Colorado	10,624	4,515	42.5	1,583,722	35.1	40.67
Hawaii	NA	NA	NA	85	NA	80.00
Idaho	6,407	1,822	28.4	631,583	34.7	44.89
Kansas	29,229	6,508	22.3	1,979,917	30.4	52.38
Missouri	14,924	4,988	33.4	1,181,956	23.7	62.30
Montana	17,194	6,928	40.3	1,762,230	25.4	37.31
Nebraska	20,325	4,395	21.6	949,358	21.6	54.54
Nevada	861	68	7.9	1,096	1.6	40.00
New Mexico	2,422	731	30.2	455,390	62.3	37.75
North Dakota	27,134	1,571	5.8	1,448,885	92.2	38.15
Oregon	4,347	854	19.6	479,605	56.2	48.82
South Dakota	16,945	1,304	7.7	846,764	64.9	39.08
Utah	2,044	334	16.3	212,805	63.7	40.07
Washington	7,815	2,068	26.5	805,834	39.0	49.49
Wyoming	2,546	107	4.2	215,721	201.6	40.07
Total	174,459	36,880	21.1	12,708,923	34.5	
Northeast	17,268	3,670	21.3	108,724	3.0	
Midwest	121,458	17,997	14.8	4,070,030	22.6	
Northeast and Midwest	138,726	21,667	15.6	4,178,754	19.3	
South	107,325	24,522	22.8	6,079,145	24.8	
West	174,459	36,880	21.1	12,708,923	34.5	
South and West	281,784	61,402	21.8	18,788,068	30.6	
U.S. Total/Average	420,510	83,069	19.8	22,966,822	27.6	48.40

¹ After five signups.

SOURCE: U.S. Department of Agriculture, Agricultural Stabilization and Conservation Service, unpublished data, 1988.



SECTION EIGHT: TRANSPORTATION

Function 400 (transportation) of the budget includes federal support for highways, mass transit, rail, water and air transportation, and transportation safety and regulation programs. The president has requested \$27.0 billion in budget authority for this function in fiscal 1989, a 3.6 percent reduction from the fiscal 1988 level of \$28.0 billion.

While the overall reduction in the function is modest, the president's budget places significantly different priorities on the programs within the function. For example, the president has requested a sizable reduction in the obligation level for federal-aid to highway programs, a major restructuring of mass transit assistance that would result in a 54 percent cut from the fiscal 1988 budget authority level, the elimination of federal support for Amtrak, a 13 percent increase for the Federal Aviation Administration, and a 17 percent increase for Coast Guard programs.

A. Mass Transit Assistance

It has long been the administration's position that financing mass transit should be the responsibility of local government. If there is to be a federal role in assisting mass transit, the administration believes that such support should not come from the general revenues of the Treasury, but should be limited to user fee revenues. Therefore, the administration proposes that mass transit spending (except for the Washington Metro) be limited to the receipts provided by the 1 cent per gallon of the federal gasoline tax that current law dedicates to mass transit. The president proposes budget authority of \$1.5 billion for mass transit assistance in fiscal 1989, a 54 percent, or \$1.75 billion, cut from fiscal 1988 levels. (For a state-by-state breakdown of spending for urban and rural transportation assistance, see the tables at the end of this section.)

The president's proposal calls for a major restructuring of federal mass transit assistance programs. The proposal would eliminate the existing mass transit discretionary grants program. All funds (except Washington Metro) would be distributed by formula to states and large urban areas.

The administration would shift trust fund monies that have funded the discretionary grants program to the formula grants program, which would receive \$1.4 billion of such funding in fiscal 1989. The formula grants program would no longer provide operating assistance to medium and large cities. The adoption of such a provision would have serious fiscal repercussions for cities across the Northeast-Midwest region. Of the \$1.4 billion available for formula grants, \$200 million would be available for operating assistance for small cities and rural areas, and \$1.1 billion would be available for capital formula grants. This major restructuring of federal mass transit assistance programs is identical to a proposal contained in the president's fiscal 1988 budget, which was rejected by Congress.

BUDGET SUMMARY
(in millions of dollars)

						Percent Change	
						1988-1989	
						Adjusted	
						for	
Function	1981	1987	1988	1989			
	Actual	Actual	Estimate	Request	Nominal	Inflation	
Transportation							
Urban Mass Transportation Administration							
401	Formula Grants						
	Budget Authority	NA	2,000	1,736	0	-100.0	-100.0
	Outlays	NA	1,822	2,131	1,611	-24.4	-27.2
401	Section 3 Discretionary Grants						
	Budget Authority	NA	1,097	1,200	0 ¹	-100.0	-100.0
	Outlays	NA	668	753	867 ²	15.1	10.9
401	Interstate Transfer Grants						
	Budget Authority	NA	200	124	0	-100.0	-100.0
	Outlays	NA	264	239	186	-22.2	-25.0
401	Federal-Aid to Highways						
	Budget Authority	9,045	13,479	13,706	13,702	0.0	-3.7
	Outlays	8,222	12,614	13,188	13,232	0.3	-3.3
401	Highway Traffic Safety Grants						
	Budget Authority	NA	121	220	126	-42.7	-44.8
	Outlays	NA	115	121	128	5.8	1.9
401	Motor Carrier Safety Grants						
	Budget Authority	NA	50	50	60	20.0	15.6
	Outlays	NA	26	40	49	22.5	18.0
403	Saint Lawrence Seaway						
	Outlays	-1.1	1.7	1.0	0.0	-100.0	-100.0
	Limitation on						
	Administration Expenses	1.7	2.0	2.0	2.1	5.0	138.1
401	Interstate Commerce Commission						
	Budget Authority	76	47	44	44 ³	0.0	-3.7
	Outlays	74	42	43	44 ⁴	2.3	-1.4
401	Northeast Corridor Improvement Program						
	Budget Authority	350	17	27	0	-100.0	-100.0
	Outlays	218	95	68	46	-32.4	-34.8
401	Amtrak						
	Budget Authority	881	595	581	0	-100.0	-100.0
	Outlays	851	597	600	29	-95.2	-95.3

BUDGET SUMMARY (continued)
(in millions of dollars)

Function	1981 Actual	1987 Actual	1988 Estimate	1989 Request	Percent Change 1988-1989	
					Adjusted for Nominal Inflation	
401 Railroad Rehabilitation and Improvement						
Budget Authority	NA	20	1	0	-100.0	-100.0
Outlays	NA	12	-197	-123	-37.6	-39.8
402 Grants in Aid for Airports						
Budget Authority	NA	869	1,700	1,700	0.0	-3.7
Outlays	NA	917	979	1,100	12.4	8.2
402 Total Trust Funds Federal Aviation Administration						
Budget Authority	NA	2,437	3,789	4,933	30.2	25.4
Outlays	NA	2,602	2,978	3,828	28.5	23.8

¹ Assumes reduction of \$1,250 million proposed for later transmittal under proposed legislation.

² Excludes the reduction of \$104 million proposed for later transmittal under proposed legislation.

³ Excludes the reduction of \$30 million proposed for later transmittal under proposed legislation.

⁴ Excludes the reduction of \$31 million proposed for later transmittal under proposed legislation.

B. Amtrak

The president once again has proposed the elimination of federal support for Amtrak. The fiscal 1988 budget contains \$581 million in budget authority and \$600 million in outlays for fiscal 1988. The president's budget proposes no new budget authority and \$29 million in outlays for fiscal 1989. Unlike previous years, however, the president's budget assumes no deficit reduction from the sale of Amtrak; all savings result from the elimination of federal support. The Northeast-Midwest region received 64 percent of Amtrak subsidies in fiscal 1986.

C. Federal Aid Highways Fund

The administration has requested \$13.7 billion in budget authority for the Federal Highway Administration in fiscal 1989, a reduction from \$13.8 billion in fiscal 1988. In fiscal 1989, the president's proposed total obligation ceiling, which applies to most federal-aid highway programs and allows the states to enter into formal contracts for authorized projects, would be \$12.3 billion, a 5 percent decrease from the \$13.0 billion level projected for fiscal 1988.

These funds are generated by the 8 cent federal gasoline tax. Gas tax allocation would remain consistent with the amount authorized in the Surface Transportation and Uniform Relocation Assistance Act, which guarantees that at least 85 percent of federal gasoline tax collections from each state would be returned to that state through program spending. As with mass transit funding, the administration proposes to set the annual obligations ceiling so that spending from the highway account for the highway trust fund does not exceed user fee (gas tax) receipts, excluding interest.

The president's budget proposes a general reduction in federal funding for highways. Only program administration and research would receive increased funding. The continued decline of the Interstate 4R program of resurfacing, restoring, rehabilitating, and reconstruction would affect the declining state of highway systems in the Northeast and Midwest. Past studies have indicated that a \$20 billion annual program would be needed to maintain current highway conditions. (See the table on selected federal highway program apportionments for state-by-state figures at the end of this section.)

D. Federal Aviation Administration (FAA)

The administration proposes a 13.1 percent increase in budget authority for the Federal Aviation Administration, from \$6.1 billion in fiscal 1988 to \$6.9 billion in fiscal 1989. According to the administration, revenues from the Airport and Airway Trust Fund will account for \$4.6 billion of the authorized dollars. These revenues accrue from excise taxes, including the 8 percent passenger ticket tax and other taxes paid by airport and airway users.

In a continuing effort to "ensure the safe and efficient movement of the Nation's air traffic," the administration proposes a 44 percent increase to modernize the airspace system. The \$1.6 billion authorized for facilities and equipment would be funded by the trust.

The administration proposes a 9.4 percent increase in operations from \$3.1 billion in fiscal 1988 to \$3.4 billion in fiscal 1989. This funding level would increase the air traffic control work force from 15,900 in 1988 to 16,800 in 1989, and the the safety inspector and security work force from 3,209 in 1988 to 3,659 in 1989.

E. St. Lawrence Seaway

The U.S. St. Lawrence Seaway Development Corporation and the Canadian St. Lawrence Seaway Authority operate the seven locks between Montreal and Lake Ontario, providing the Great Lakes with a vital shipping link. The Seaway Corporation also promotes and markets the seaway system.

In the past, the Seaway Development Corporation has been financed through tolls collected directly from shippers. H.R. 6, passed in October 1986, effectively severing the link between the tolls and the cost of administering and operating the seaway as of April 1, 1987.

The tolls, estimated at \$12.3 million in fiscal 1989, continue to be collected and are added to the Harbor Maintenance Trust Fund established in 1986. Under existing law, revenue for this fund is derived from receipts from a .04 percent ad valorem tax on commercial cargo handled at U.S. coastal and Great Lakes ports and the collection of charges and tolls at the Saint Lawrence Seaway. However, shippers receive a full rebate from the fund for that portion of their contribution attributable to seaway tolls. In turn, the U.S. assumes 100 percent of the cost of maintaining and operating the seaway. Thus, Great Lakes shippers are placed on par with the shippers at coastal ports by not having to pay an extra charge for moving cargo through the seaway.

The administration's budget proposes to restore the corporation to direct toll financing. The proposal does not include a rebate provision, and thus would double-tax Great Lakes shippers, who would face both seaway tolls and the ad valorem tax imposed on cargo unloaded at the Great Lakes ports.

Urban Public Transportation Assistance
(Section 9): Fiscal 1988
(in thousands of dollars)

Region and State	Urban Areas Over 1,000,000 in Population	Urban Areas 200,000- 1,000,000 in Population	Urban Areas 50,000- 200,000 in Population	Urban Areas Total Population	Percent of U.S. Total
New England					
Connecticut	0	13,369	12,147	25,516	1.5
Maine	0	0	1,262	1,262	0.1
Massachusetts	51,055	8,014	5,521	64,590	3.7
New Hampshire	0	0	1,598	1,598	0.1
Rhode Island	0	11,000	431	11,431	0.7
Vermont	0	0	428	428	*
Total	51,055	32,383	21,387	104,825	6.1
Mid-Atlantic					
Delaware	0	2,654	0	2,654	0.2
Maryland	19,943	0	1,108	21,051	1.2
New Jersey	0	2,752	1,253	4,005	0.2
New York	444,731	13,968	3,994	462,693	26.8
Pennsylvania	101,589	6,711	7,746	116,046	6.7
Total	566,263	26,085	14,101	606,449	35.2
Midwest					
Illinois	138,664	2,492	8,010	149,166	8.7
Indiana	0	8,755	4,934	13,689	0.8
Iowa	0	4,067	2,752	6,819	0.4
Michigan	22,936	8,715	4,913	36,564	2.1
Minnesota	15,116	0	1,669	16,785	1.0
Ohio	27,145	28,311	3,887	59,343	3.4
Wisconsin	12,771	3,068	6,423	22,262	1.3
Total	216,632	55,408	32,588	304,628	17.7
South					
Alabama	0	5,005	4,218	9,223	0.5
Arkansas	0	1,817	1,243	3,060	0.2
District of Columbia	53,444	0	0	53,444	3.1
Florida	26,143	25,443	5,830	57,416	3.3
Georgia	22,355	2,376	3,247	27,978	1.6
Kentucky	0	7,053	2,503	9,556	0.6
Louisiana	12,027	3,912	2,923	18,862	1.1
Mississippi	0	1,354	1,583	2,937	0.2
North Carolina	0	4,771	6,845	11,616	0.7
Oklahoma	0	5,699	846	6,545	0.4
South Carolina	0	4,975	1,353	6,328	0.4
Tennessee	0	12,835	1,472	14,307	0.8
Texas	39,138	20,601	13,543	73,282	4.3
Virginia	0	12,446	3,068	15,514	0.9
West Virginia	0	0	2,825	2,825	0.2
Total	153,107	108,287	51,499	312,893	18.1

Urban Public Transportation Assistance
(Section 9): Fiscal 1988 (continued)
(in thousands of dollars)

Region and State	Urban Areas Over 1,000,000 in Population	Urban Areas 200,000- 1,000,000 in Population	Urban Areas 50,000- 200,000 in Population	Urban Areas Total Population	Percent of U.S. Total
West					
Alaska	0	0	855	855	*
Arizona	7,566	4,956	368	12,890	0.7
California	214,340	18,341	13,012	245,693	14.3
Colorado	14,010	918	2,788	17,716	1.0
Hawaii	0	13,897	832	14,729	0.9
Idaho	0	0	1,208	1,208	0.1
Kansas	0	2,010	1,183	3,193	0.2
Missouri	20,947	0	1,951	22,898	1.3
Montana	0	0	1,412	1,412	0.1
Nebraska	0	4,212	1,329	5,541	0.3
Nevada	0	1,926	1,069	2,995	0.2
New Mexico	0	2,860	606	3,466	0.2
North Dakota	0	0	1,200	1,200	0.1
Oregon	11,687	0	2,705	14,392	0.8
South Dakota	0	0	859	859	*
Utah	0	8,047	1,098	9,145	0.5
Washington	26,196	7,422	2,585	36,203	2.1
Wyoming	0	0	807	807	*
Total	294,746	64,589	35,867	395,202	22.9
Northeast	617,318	58,468	35,488	711,274	41.3
Midwest	216,632	55,408	32,588	304,628	17.7
Northeast and Midwest	833,950	113,876	68,076	1,015,902	58.9
South	153,107	108,287	51,499	312,893	18.1
West	294,746	64,589	35,867	395,202	22.9
South and West	447,853	172,876	87,366	708,095	41.1
U. S. Total¹	1,281,803	286,752	155,442	1,723,997	100.0

* Less than 0.1 percent.

¹ U. S. totals do not include Puerto Rico or the Territories.

SOURCE: Federal Register, vol. 53, no. 21 (February 2, 1988), "Fiscal Year 1988 UMTA Section 9 Formula Apportionments," pp. 2950-2965.

**Nonurban Transportation (Section 18)
and Rural Transit Assistance Program: Fiscal 1988**

Region and State	Section 18 Apportionment	Rural Transit Assistance Program Allocation	Total	Percent of U.S. Total
New England				
Connecticut	579,404	62,885	642,289	0.9
Maine	639,873	64,229	704,102	1.0
Massachusetts	944,539	71,004	1,015,543	1.5
New Hampshire	458,654	60,199	518,853	0.7
Rhode Island	114,268	52,541	166,809	0.2
Vermont	317,877	57,069	374,946	0.5
Total	3,054,615	367,927	3,422,542	4.8
Mid-Atlantic				
Delaware	165,745	53,686	219,431	0.3
Maryland	786,131	67,482	853,613	1.2
New Jersey	784,390	67,443	851,833	1.2
New York	2,752,248	111,204	2,863,452	4.3
Pennsylvania	3,431,922	126,318	3,558,240	5.4
Total	7,920,436	426,133	8,346,569	12.4
Midwest				
Illinois	2,289,564	100,915	2,390,479	3.6
Indiana	2,111,539	96,956	2,208,495	3.3
Iowa	1,448,556	82,213	1,530,769	2.3
Michigan	2,543,573	106,566	2,650,239	4.0
Minnesota	1,477,849	82,864	1,560,713	2.3
Ohio	3,113,100	119,229	3,232,329	4.9
Wisconsin	1,731,514	88,505	1,820,019	2.7
Total	14,715,795	677,248	15,393,043	23.1
South				
Alabama	1,555,611	84,593	1,640,204	2.4
Arkansas	1,259,359	78,005	1,337,364	2.0
District of Columbia	NA	NA	NA	NA
Florida	1,694,039	87,672	1,781,711	2.7
Georgia	2,090,195	96,481	2,186,676	3.3
Kentucky	1,774,630	89,464	1,864,094	2.8
Louisiana	1,464,845	82,575	1,547,420	2.3
Mississippi	1,411,966	81,399	1,493,365	2.2
North Carolina	2,835,600	113,058	2,948,658	4.4
Oklahoma	1,285,190	78,580	1,363,770	2.0
South Carolina	1,412,154	81,403	1,493,557	2.2
Tennessee	1,830,565	90,708	1,921,273	2.9
Texas	3,728,065	132,906	3,860,971	5.8
Virginia	1,682,727	87,420	1,770,147	2.6
West Virginia	1,130,125	75,132	1,205,257	1.8
Total	25,155,071	1,259,396	26,414,467	39.4

**Nonurban Transportation (Section 18)
and Rural Transit Assistance Program: Fiscal 1988**

Region and State	Section 18 Apportionment	Rural Transit Assistance Program Allocation	Total	Percent of U.S. Total
West				
Alaska	169,273	53,764	223,037	0.3
Arizona	588,083	63,078	651,161	0.9
California	2,815,749	112,616	2,928,365	4.4
Colorado	637,980	64,187	702,167	1.0
Hawaii	202,098	54,494	256,592	0.3
Idaho	552,311	62,282	614,593	0.9
Kansas	1,102,980	74,528	1,177,508	1.7
Missouri	1,678,500	87,326	1,765,826	2.6
Montana	422,497	59,395	481,892	0.7
Nebraska	683,860	65,208	749,068	1.1
Nevada	150,072	53,337	203,409	0.2
New Mexico	568,308	62,638	630,946	0.9
North Dakota	347,803	57,734	405,537	0.5
Oregon	997,554	72,183	1,069,737	1.6
South Dakota	403,486	58,973	462,459	0.6
Utah	300,676	56,686	357,362	0.5
Washington	1,104,128	74,553	1,178,681	1.7
Wyoming	257,151	55,718	312,869	0.4
Total	12,982,509	1,188,700	14,171,209	20.3
Northeast	10,975,051	794,060	11,769,111	17.2
Midwest	14,715,795	677,248	15,393,043	23.1
Northeast and Midwest	25,690,846	1,471,308	27,162,154	40.2
South	25,155,071	1,259,396	26,414,467	39.4
West	12,982,509	1,188,700	14,171,209	20.3
South and West	38,137,580	2,448,096	40,585,676	59.8
U.S. Total	63,828,421¹	3,919,404¹	67,747,830	100.0

¹Totals do not include funds for Puerto Rico or the Territories.

SOURCE: Federal Register, vol. 53, no. 21, (February 2, 1988) "Fiscal Year 1988 UMTA Section 18 Formula Apportionments and Rural Transit Assistance Program (RTAP) Allocations to the States for Nonurbanized Areas," p. 2975.

Selected Federal Highway Program Apportionments
(in thousands of dollars)

Region and State	Interstate Construction Fiscal 1989	Interstate AR Fiscal 1989	Consolidated Primary Fiscal 1988	Rural Secondary Fiscal 1988	Urban System Fiscal 1988	Replacement and Rehabilitation	Overall Total	Percent of U.S. Total
New England								
Connecticut	68,382	32,414	24,861	3,793	10,336	49,733	189,519	2.2
Maine	13,650	12,533	14,241	5,038	3,602	5,579	54,644	0.6
Massachusetts	380,533	31,738	43,908	5,903	20,085	42,084	524,252	6.0
New Hampshire	13,650	12,533	11,165	2,881	3,602	7,509	51,340	0.6
Rhode Island	13,650	12,533	11,165	2,881	3,602	3,380	47,211	0.5
Vermont	13,650	12,677	11,165	2,881	3,602	6,935	50,910	0.6
Total	503,515	114,428	116,505	23,377	44,829	115,220	917,876	10.5
Mid-Atlantic								
Delaware	13,650	12,533	11,165	2,881	3,601	3,380	47,211	0.5
Maryland	108,176	37,833	33,448	5,499	14,171	20,335	219,483	2.5
New Jersey	99,851	29,660	52,633	5,162	27,667	63,361	278,334	3.2
New York	13,650	87,360	132,662	17,177	62,336	135,181	448,366	5.1
Pennsylvania	158,199	65,539	106,127	21,820	33,803	92,164	477,652	5.5
Total	393,526	232,925	336,035	52,539	141,578	314,421	1,471,046	16.8
Midwest								
Illinois	13,650	89,547	88,395	16,737	39,528	39,712	287,568	3.3
Indiana	13,745	55,663	51,744	13,629	14,316	24,758	173,854	2.0
Iowa	13,650	36,150	34,712	12,509	6,552	29,150	132,722	1.5
Michigan	43,261	82,318	81,325	17,264	27,161	20,244	271,573	3.1
Minnesota	60,179	45,936	42,953	14,338	10,892	18,464	192,762	2.2
Ohio	30,737	102,595	92,363	18,003	32,897	48,115	324,710	3.7
Wisconsin	13,650	34,039	47,412	13,373	12,129	34,070	154,673	1.8
Total	188,872	446,248	438,904	105,853	143,475	214,513	1,537,862	17.6
South								
Alabama	115,915	46,714	40,886	11,998	9,323	29,087	253,923	2.9
Arkansas	13,650	27,204	27,956	10,434	4,397	18,241	101,882	1.2
District of Columbia	36,010	12,533	11,165	0	3,242	7,011	70,321	0.8
Florida	157,613	88,179	74,138	14,604	34,363	20,849	389,746	4.5
Georgia	63,817	88,337	54,597	15,507	13,705	35,557	271,520	3.1
Kentucky	20,166	44,842	38,902	12,000	7,326	31,497	154,732	1.8
Louisiana	116,379	44,491	38,224	9,683	11,681	34,224	254,682	2.9
Mississippi	13,650	31,616	31,319	10,553	4,593	24,557	116,288	1.3
North Carolina	44,164	46,360	63,714	17,247	11,160	35,684	218,329	2.5
Oklahoma	13,650	35,722	34,052	11,621	8,015	35,000	138,059	1.6
South Carolina	20,141	40,052	32,443	8,938	6,616	11,552	119,742	1.4
Tennessee	13,650	61,270	46,185	13,254	11,260	50,166	195,784	2.2
Texas	129,636	199,871	130,596	36,802	46,525	55,513	598,942	6.9
Virginia	67,723	68,745	49,099	12,668	14,594	22,720	235,549	2.7
West Virginia	13,650	18,911	23,340	7,415	3,602	38,694	105,611	1.2
Total	839,814	854,847	696,616	192,724	190,402	450,352	3,225,110	36.9

Selected Federal Highway Program Apportionments (continued)
(in thousands of dollars)

Region and State	Interstate Construction Fiscal 1989	Interstate AM Fiscal 1989	Consolidated Primary Fiscal 1988	Rural Secondary Fiscal 1988	Urban System Fiscal 1988	Replacement and Rehabilitation	Overall Total	Percent of U.S. Total
West								
Alaska	13,650	21,278	73,540	31,778	3,602	3,380	147,227	1.7
Arizona	18,335	55,083	31,049	9,778	9,304	3,380	126,928	1.5
California	296,477	242,882	164,578	23,608	91,214	39,082	857,841	9.8
Colorado	56,835	48,898	33,859	10,865	9,654	14,598	174,708	2.0
Hawaii	101,560	12,533	11,165	2,881	3,602	3,434	135,176	1.5
Idaho	25,170	22,847	18,034	7,127	3,602	3,499	80,279	0.9
Kansas	13,650	36,620	32,726	11,815	6,124	31,352	132,288	1.5
Missouri	13,650	70,432	50,944	15,464	13,482	56,623	220,595	2.5
Montana	13,650	40,302	26,272	10,855	3,602	7,690	102,371	1.2
Nebraska	13,650	21,447	24,839	9,248	3,965	19,203	92,352	1.1
Nevada	13,650	22,140	18,619	7,004	3,602	3,380	68,394	0.8
New Mexico	13,650	41,891	25,500	9,609	3,788	4,691	99,129	1.1
North Dakota	13,650	20,257	17,236	7,010	3,602	5,684	67,437	0.8
Oregon	17,675	37,891	29,003	9,760	7,163	10,144	111,637	1.3
South Dakota	12,285	22,542	16,604	6,836	3,242	8,631	70,139	0.8
Utah	37,255	38,741	19,527	6,472	5,064	3,380	110,439	1.3
Washington	114,426	54,487	39,175	10,043	12,478	32,379	262,988	3.0
Wyoming	12,285	29,646	15,354	6,289	3,242	3,380	70,195	0.8
Total	801,503	839,917	648,024	196,442	190,332	253,910	2,930,123	33.6
Northeast	897,041	347,353	452,540	75,916	186,407	429,641	2,388,922	27.4
Midwest	188,872	446,248	438,904	105,853	143,475	214,513	1,537,862	17.6
Northeast and Midwest	1,085,913	536,225	641,412	264,788	375,279	618,513	2,577,794	29.5
South	839,814	854,847	696,616	192,724	190,402	450,352	3,225,110	36.9
West	901,503	839,917	648,024	196,442	190,332	253,910	2,930,123	33.6
South and West	1,641,317	1,694,764	1,344,640	389,166	380,734	704,262	6,155,233	70.5
U.S. Total	2,727,230	2,230,989	1,986,052	653,954	756,013	1,322,775	8,733,027	100.0

SOURCE: U.S. Department of Transportation, Federal Highway Administration, "Supplementary Tables--FY 1989 Interstate and FY 1988 Non-Interstate Apportionments" (Washington, D.C., November 30, 1987), table 2.

Other Publications of the Northeast-Midwest Institute

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Charles Bartsch, senior editor

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